

No. 17,511 ✓

In the
United States Court of Appeals
for the Ninth Circuit

OWENS GENERATOR COMPANY, INC., a defunct New Jersey corporation; FREDERICK H. WITTMER, individually and as Director and Statutory Liquidating Trustee of OWENS GENERATOR COMPANY, INC., a defunct New Jersey corporation; and FILLMORE S. GIBSON, Executor of the Estate of WILLIAM J. TOBIN, individually and as a Director and Statutory Liquidating Trustee of OWENS GENERATOR COMPANY, INC., a defunct New Jersey corporation,

Plaintiffs-Appellants,

vs.

H. J. HEINZ COMPANY, a Pennsylvania corporation,

Defendant-Appellee.

Appellants' Opening Brief

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Plaintiffs-Appellants,

vs.

H. J. HEINZ COMPANY, a Pennsylvania corporation,

Defendant-Appellee.

Appellants' Opening Brief

This is an appeal from a summary judgment entered in favor of defendant-appellee, H. J. HEINZ COMPANY, dismissing plaintiffs-appellants' complaint seeking to impress a constructive trust upon converted assets of a defunct New Jersey corporation.

JURISDICTION

Jurisdiction of the District Court is based upon U. S. Code, Title 28, Section 1332(a)(1). This is a civil action between citizens of different states and the matter in controversy exceeds the sum or value of \$3,000 exclusive of interest and costs (Tr. 1-2, 145-146). The complaint was filed on June 18, 1957 prior to the Act of July 25, 1958, 72 Stat. 415, which increased the statutory amount to \$10,000.

Jurisdiction of this Court is based upon U. S. Code, Title 28, Section 1291. This appeal is taken from a final decision of a District Court of the United States entered in favor of one of several defendants (Tr. 316-317). The District Court has expressly determined that there is no just reason for delay in entering the judgment and has expressly directed the Clerk to enter Judgment as required by Rule 54(b) of the Federal Rules of Civil Procedure (Tr. 317).

STATEMENT OF THE CASE

The Persons Involved.

Defendant Charles H. Owens (herein called Owens) is the inventor of two patented vinegar generators. Patent No. 2,089,412 for vinegar generator issued to Owens on August 10, 1937 upon an application filed May 5, 1936 (Tr. 525-532). Patent No. 2,236,153 for vinegar generator issued to Owens on March 25, 1941 on an application filed June 30, 1938 (Tr. 533-537). Owens died on June 28, 1962.

Plaintiff Frederick H. Wittmer (herein called Wittmer) became associated with Owens on March 14, 1936 to engage eventually in the business of the manufacture, sale and distribution of generators of the type invented by Owens (Tr. 111-115).

Plaintiff William J. Tobin (herein called Tobin), Owens, and Wittmer on March 10, 1938 organized plaintiff Owens

Generator Company, Inc. (herein called Generator Company). Tobin died on September 23, 1960 (Tr. 319). His executor Fillmore S. Gibson has been substituted as a party plaintiff (Tr. 323).

Generator Company was organized on March 10, 1938 under the laws of the State of New Jersey (Tr. 517-524). On November 25, 1941 it was enjoined from the exercise of any franchise or the transaction of any business for failure to pay its franchise taxes (Tr. 68-69, 312). On January 19, 1943 its charter was revoked by the Governor of New Jersey (Tr. 312). On that date, Owens, Wittmer and Tobin constituted the board of directors.

Defendant H. J. Heinz Company (herein called Heinz) purchased a giant type Owens Generator from Generator Company on August 28, 1940 (Tr. 309, 416). Heinz later was involved in litigation with both Owens and Generator Company in the Superior Court of the State of California, No. 175,935 (herein called the Alameda action), by virtue of a complaint filed on November 16, 1943 (Tr. 22-32). That litigation terminated in a judgment filed December 21, 1944 (Tr. 33-34). Heinz also was involved in certain contempt proceedings initiated in the Alameda action by Owens which resulted in interlocutory and final orders of the Superior Court and review by the California Supreme Court. Heinz in 1954 purchased the Owens' patents from Owens and together with Owens obtained a vacation of a part of the judgment in the Alameda action.

Defendant Morris Lowenthal (herein called Lowenthal) is a San Francisco attorney. He represented Generator Company in collecting from Heinz the purchase price for said generator. He represented both Generator Company and Owens in the prosecution of the Alameda action. He represented Owens in the prosecution of the contempt pro-

ceedings lodged against Heinz arising out of the Alameda judgment, in the sale of the patents, and in the vacation of part of the judgment in the Alameda action. He is a member of the State Bar of California and of the American Bar Association (Martindale-Hubbell Law Directory, Vol. I, p. 307).

The Questions Involved.

1. Was Heinz without notice of the rights of appellants when it paid Owens and Lowenthal the sum of \$250,000 in May, 1954 for :

(a) contributing to the entry of an order of the court vacating a prior unappealed judgment in favor of Generator Company as a joint plaintiff in an action brought by Owens and Generator Company as plaintiffs against Heinz, and one Glen F. Mason, defendants;

(b) an assignment dated May 15, 1954 and recorded in the U. S. Patent Office on June 24, 1954, assigning Patent No. 2,059,412;

(c) an assignment dated May 15, 1954 and recorded in the U. S. Patent Office on June 24, 1954 assigning Patent No. 2,236,153; and

(d) a certain release and satisfaction executed on or about May 15, 1954 by Owens and his wife to Heinz.

The District Court held that Heinz was a purchaser without notice. Appellants contend that Heinz is not a purchaser for value of such properties without notice; that the properties embraced in items (a), (b), and (c) were trust property of Generator Company, and of its stockholders at the time the transfer was made; and that Heinz became a constructive trustee when it intermeddled with the trust property.

2. Did "the pleadings, depositions, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact" and that Heinz "is entitled to a judgment as a matter of law," as provided in Rule 56(c) of the Federal Rules of Civil Procedure.

The District Court held that Heinz did make such a showing and dismissed the complaint. Appellants here concede that there is no genuine issue as to any material fact, but contend that appellants are entitled to judgment as a matter of law on the undisputed facts.

The Pleadings and Procedure in This Case.

On June 18, 1957, Generator Company and Wittmer and Tobin, individually and as directors and statutory liquidating trustees of Generator Company, as plaintiffs, filed the instant action against Heinz; Owens; Lowenthal; and Juliet Lowenthal as defendants for damages and an accounting for violation of injunction and for breach of trust (Tr. 1-13). After the denial of a motion to dismiss [*Owens Generator Company v. H. J. Heinz Company* (N.D. Cal. S.D. 1958), 23 F.R.D. 121], Heinz on December 22, 1958 filed its answer (Tr. 145-159).

On June 13, 1960, Heinz filed a motion for summary judgment (Tr. 197-198) stating:

"The motion is made on the ground that there is no genuine issue as respects this defendant, as to any material fact, and that defendant H. J. Heinz Company is entitled to judgment as a matter of law."

On April 7, 1961, the District Court granted the motion (Tr. 307-315) and on May 4, 1961, formal judgment was entered (Tr. 316-317) reciting:

"The Court having heretofore, on April 7, 1961, granted the motion by defendant H. J. Heinz Com-

pany for summary judgment, and it appearing that there is no genuine issue as to any material fact as between plaintiffs, or any of them, and defendant H. J. Heinz Company and that said defendant is entitled to judgment as a matter of law,

“IT IS HEREBY ORDERED, ADJUDGED AND DECREED that plaintiffs and each of them have and recover nothing against defendant H. J. Heinz Company, that this suit and the claims for relief of plaintiffs and each of them against defendant H. J. Heinz Company be and they are hereby dismissed, and that the defendant H. J. Heinz Company have and recover its costs from plaintiffs and each of them in the sum of \$62.11.

“The Court hereby expressly determines that there is no just reason for delay in entering the foregoing judgment, and the Clerk is hereby expressly directed to enter the foregoing judgment forthwith.”

Notice of appeal was filed on June 2, 1961 (Tr. 321-322).

Prior Litigation.

On November 16, 1943, Owens and Generator Company as plaintiffs filed an action against Heinz and another as defendants in the Alameda action (Tr. 22-32) in which the plaintiffs there charged defendants with fraud and misrepresentation, sought the destruction and cancellation of an outstanding patent license and sought injunctive relief against the defendants (Tr. 30). On April 24, 1944 defendants filed their answer (Tr. 228-248). On the issues thus framed, the Superior Court on December 18, 1944 filed its findings of fact and conclusions of law in favor of both plaintiffs (Tr. 207-226). On December 21, 1944 judgment was entered accordingly (Tr. 308, 33-34). Defendant Morris Lowenthal represented both Owens and Generator Company in that action. On stipulation of Owens represented

by Lowenthal and Juliet Lowenthal and stipulation of Heinz represented by its attorneys (Tr. 261-263), the Superior Court on May 17, 1954 entered an order dissolving the injunction and modifying the final judgment (Tr. 268-269).

On September 8, 1949 Owens filed an affidavit charging Heinz with violating the injunction (Tr. 35). On July 13, 1951 the Superior Court entered an interlocutory order (Tr. 35-61) finding Heinz guilty of contempt. On March 24, 1952 the court handed down its final order, decree and award (Tr. 62-67). Upon review, the California Supreme Court affirmed such order in part and annulled it in part (*H. J. Heinz Co. v. Superior Court* (1954) 42 C.2d 164, 266 P.2d 5). Heinz then obtained a stay pending filing of petition for certiorari but before filing the petition the Alameda action was settled (Tr. 309) by Owens and Heinz.

In the interim Heinz had filed suit in the District Court for the Northern District of California seeking to restrain Owens from pursuing the contempt proceedings in the state court. A summary judgment in favor of Owens was affirmed on appeal (*H. J. Heinz Co. v. Owens* (9th Cir. 1951, reh. den. 1951) 189 F. 2d 505, cert. den. (1952) 342 U. S. 905).

The Undisputed Facts.

This matter is before this Court on summary judgment. We therefore turn only to the undisputed facts upon which the District Court relied to conclude that Heinz was entitled to judgment as a matter of law and to further undisputed facts upon which appellants contend that on this appeal they are entitled to summary judgment as a matter of law.

On March 10, 1938 Owens, Wittmer and Tobin organized Generator Company (Tr. 308, 517-524). Their general business was to be the business of the construction of genera-

tors of any and every kind (Paragraph 3(a), Tr. 517). Specific objects included the following (Tr. 518):

“(f) To apply for, acquire, buy, sell, assign, lease, pledge, mortgage or otherwise dispose of letters patent of the United States or of any foreign country, and all or any rights, territorial or otherwise, thereunder.

“(g) To apply for, acquire, hold, sell, assign, lease, mortgage, or otherwise dispose of patent rights, licenses, privileges, inventions, trade-marks, trade-names and pending applications therefor, relating to or useful in connection with any business of the corporation.”

Owens and Wittmer each subscribed to 37½ shares and Tobin subscribed to 25 shares (Tr. 520).

Three agreements were made on March 11, 1938. One was between Generator Company and Owens (Tr. 116-119, 355-358). Another was between Owens and Generator Company (Tr. 308, 120-123, 359-362). Still another was between Owens, Wittmer and Tobin (Tr. 124-127, 364-366). These agreements in part referred to Owens' patent 2,089,412 which had been issued earlier on August 10, 1937 for a vinegar generator. This patent is reproduced in full at Tr. 525-532.

The Owens—Generator Company grant which the District Court construed (Tr. 308) provides (Tr. 120-121; 359-360):

“1. [Owens] hereby grants unto [Generator Company] the sole and exclusive right, privilege, and license within the United States to manufacture, sell, install and operate vinegar generators containing the said patented improvement, and any and all improvements thereon for so long as [Generator Company] shall continue in business or to the end of the term for which the said letters patent, or any extensions thereof, were granted, whichever event shall first occur. If,

however [Generator Company] shall terminate its said business at any time hereafter, whether by insolvency proceedings in any state court, Bankruptcy, or for any reason, either voluntary or involuntary, then, and in that event, the license hereby granted shall immediately terminate and become void and for nothing holden."

"4. [Owens] shall forthwith communicate to [Generator Company] any improvement or further invention he may discover or acquire in connection with vinegar generators, and shall disclose to [Generator Company] the manner of making and using the same, and [Generator Company] shall be at liberty to manufacture, sell, install and operate vinegar generators containing any such improvement or further invention within the limits aforesaid during the subsistence of this license free of all further royalties, charges, or payments whatsoever."

"5. [Owens] during the continuance of this license shall not manufacture, sell, install or operate any vinegar generators under the said letters patent, or under any improvement or future invention hereinbefore referred to within the United States, and shall not grant any license to manufacture, sell, install or operate any vinegar generators under the said letters patent or under any such improvement or further invention to any other person, firm or corporation within the limits aforesaid."

"6. [Generator Company] may, with the consent in writing of [Owens], grant sublicenses hereunder to manufacture, sell, install and operate the said vinegar generators within the United States, but every such sublicense shall provide that it shall cease and determine in the event of this license being determined for any cause, and provided, further, that nothing herein contained shall authorize [Generator Company] to assign or mortgage this license without the written consent of [Owens]." (Tr. 121-122, 360-361).

A contemporaneous agreement provided (Tr. 75-78, 116-119, 355-358):

“(2). [Owens] shall, and he hereby agrees that he will devote his time exclusively to the business of [Generator Company], in the management and operation thereof, at a salary to commence at the sum of \$50.00 per week, * * *. [Owens] shall not, so long as the party of the first part continues in business and he continues in its employ, engage in any other employment or occupation. Until [Generator Company] becomes firmly established, [Owens] shall not, and he hereby agrees that he will not, terminate his said employment if, because of lack of sufficient funds, he does not receive his said salary, partly or in toto, each and every week as stipulated. * * *

“(3). To induce [Owens] to license it to manufacture, sell, install and operate vinegar generators of the type covered by the patent of [Owens], and any and all improvements thereon, and in consideration therefor, [Generator Company] shall, and it hereby agrees that it will, issue, fully paid and non-assessable, to [Owens], or his nominees, thirty-seven and one-half shares of the common capital stock, without nominal or par value, of [Generator Company].

“(4). [Generator Company] shall, and it hereby agrees that it will, engage the services of [Owens] to manage and operate its business at a salary to commence at \$50. per week and to be increased as hereinbefore more particularly set forth.” (Tr. 77, 118, 357).

In the third agreement Owens, Wittmer and Tobin agreed (Tr. 124-125; 363-364) that no stock in addition to the original one hundred shares would be issued by the corporation at any time during the existence of the agreement without unanimous consent; that each would vote for each of the other parties as a Director of the corporation and would not vote for any other person as a Director; and that each

would vote for Owens as President, Wittmer as Vice-President, and Tobin as Secretary and Treasurer.

On June 30, 1938 Owens filed his patent application Serial No. 216,823 seeking a patent for a vinegar generator based in part upon the "construction disclosed in detail in my patent No. 2,098,412 dated August 20, 1937 * * *". (Tr. 536). This application was filed by Clarence A. O'Brien and Hyman Berman (Tr. 535). The correspondence relating to the prosecution of application Serial No. 216,823 was carried on directly with Generator Company (Tr. 560-561). Tobin's testimony that these funds were used for filing the application (Tr. 453-454) is without dispute. The check files of the Company disclose:

Number	Date	Order Of	For	Amount
46	May 25, 1938	Clarence O'Brien	—	\$ 17.00
52	June 11, 1938	Clarence A. O'Brien	Patent for Process	50.00
55	June 25, 1938	Clarence A. O'Brien	Process Patent Fees	135.00
56	June 29, 1938	C. H. Owens	Expenses to Wash. & Etc.	53.18
TOTAL.....				<u>\$255.18</u>

In the income tax return for 1938 Generator Company listed among its assets "patents" in the amount of \$195,252.00.

As its first item of business Generator Company took over the rights and obligations of Owens and Wittmer trading as Owens-Wittmer Company under certain agreements with Frank Tea & Spice Company of Cincinnati, Ohio (Tr. 128-130 and 131-134). Generator Company built a vinegar generator under the Owens' patent for the Frank Company as brought out in several of the findings of fact entered in the Alameda suit (Tr. 210, 39, 41, 42, 44, 45 and 59). The income tax return for Generator Company for 1938 shows that Generator Company received \$6,685.00 for

this generator and that the cost of goods was \$4,921.07, leaving Generator Company with an income of \$1,763.93 on this item (Tr. 253).

As a consequence of the installation of the Owens Generator at the Frank Company, the Frank Company was sued for infringement of the Frings patent 1,880,381 owned by Standard Brands, Inc. This litigation was dismissed pursuant to stipulation on August 15, 1939 (Tr. 539-540). The stipulation of dismissal recites that counsel for plaintiff "inspected the vinegar generator installed at the plant of defendant The Frank Tea & Spice Co., Cincinnati, Ohio, by Charles H. Owens and Owens Generator Company, Inc., of Newark, New Jersey" and that "based on said inspection and observation of operation" there appeared "to be no infringement of the Frings patent in suit 1,880,381." The dismissal was "with prejudice only as to the observed construction and operation". The attorneys for defendant were Edmond T. Wood and Munn, Anderson & Liddy (Tr. 540). Tobin's testimony that Generator Company paid for the defense of that suit (Tr. 451) is not disputed.

The check files of Generator Company disclose :

Number	Date	Order Of	For	Amount
124	Dec. 10, 1938	Munn, Anderson & Liddy	Retaining Fee of Legal Services	\$150.00
126	Dec. 27, 1938	Munn, Anderson & Liddy	Retaining Fee for legal services	\$150.00
129	Jan. 3, 1939	Wood & Wood	Legal Fees at Cincinnati	\$150.00
149	Mar. 8, 1939	Munn, Anderson & Liddy	Legal Fees	222.00
TOTAL.....				\$672.00

On August 28, 1940 Generator Company entered into an agreement with Heinz to construct a Giant Type Owens

Generator in Berkeley for \$7,100.00 (Tr. 309, 416). This agreement incorporated the Frank experience as follows:

“By accepting this order, you agree to indemnify us against any claims and demands for infringement of patents covering the whole or any portion of the goods hereinabove enumerated, and/or the method that is accomplished in the operation of the apparatus, and in the event suit shall be instituted for alleged infringements of any patent or patents applicable to said apparatus and/or method, you agree, upon request from us, and upon notice of the institution of any infringement suit, to assume the defense of such suit at your own cost and expense in every respect, and to pay any and all damages and/or costs assessed against us, and to hold us entirely harmless in respect thereof.

Generator and apparatus to be furnished under this agreement shall be identical with and similar to, in every respect, the Owens installation at the plant of the Frank Tea & Spice Company, Cincinnati, Ohio, and susceptible of operation in the same manner as the Frank installation is operated.”

In order to make it possible for Generator Company to construct the generator, Generator Company borrowed \$5,000 from Edgewater National Bank of Edgewater, New Jersey, and assigned to it the Heinz contract (Tr. 368-369, 562-563 and 543-544). Owens, Wittmer, Tobin and Elizabeth C. Revere, an aunt of Tobin, endorsed and guaranteed the \$5,000 note (Tr. 369, 563).

The negotiations leading up to the execution of such contract show without material dispute that Heinz had actual notice of Generator Company's interest in the designs and close relationship between Generator Company and Owens as President of the Company. The negotiations were initiated in November, 1938 (Tr. 309) by an exchange

of correspondence between Heinz and Generator Company, "Attention: Mr. C. H. Owens, President." (Tr. 410).

It appears without dispute (Tr. 414):

"* * * the H. J. Heinz Company in August of 1939, sent its Mr. Montgomery and its patent attorney, Mr. Bayard H. Christy of the firm of Christy & Wharton, Farmers Bank Building, Pittsburgh, Pennsylvania, to the plant of the Frank Tea & Spice Company to inspect the Owens generator which was there installed and in operation. Mr. Owens and I [Robert O. Bentley] met Mr. Christy and Mr. Montgomery in Cincinnati at that time and cooperated with them fully in their inspection."

By October 21, 1939 negotiations had progressed to the extent that Robert O. Bentley, the attorney for the Company sent Bayard H. Christy, Esq. attorney for Heinz "a blueprint of the installation in the plant of the Frank Tea & Spice Co. in Cincinnati, of a generator of the above company" with the remark that "this blueprint will not be used for any purpose other than that for which it is sent by my client." (Tr. 411). This blueprint had the following notations upon it (Tr. 538).

"Generator Assembly. This print is the property of the Owens Generator Co., Inc. Drawn by C. H. O. Date 5-2-39."

"This drawing is the property of Owens Generator Company, Inc. It shall not be copied or duplicated in any manner and shall not be submitted to outside plants for examination without our consent. It shall be used for reference to work under contract or proposal submitted by this corporation only. Owens Generator Company, Inc., 888 River Road, Edgewater, New Jersey."

The interlocutory order filed July 13, 1951 recites (Tr. 40):

“* * * on October 24, 1939, said defendant had received from plaintiffs full blueprints of the construction under the Owens patent of the Owens Giant Type Generator, in response to a request made by defendant to plaintiff Charles H. Owens for a full description of said generator. * * *”.

It has been adjudicated (Tr. 210) that “subsequent to the execution of said contract plaintiff Owens Generator Company, Inc., constructed a generator of the character, specifications and type described in the aforesaid contract of sale and during or about the months of February and March, 1941, installed said generator in said defendant’s manufacturing plant at Berkeley, California.”

On November 25th, 1941 Heinz prepared a form of license signed by Owens reciting as follows: (Tr. 212)

“WHEREAS, for and in consideration of the sum of Seven Thousand, One Hundred Dollars (\$7100), I, Charles H. Owens, of North Arlington, New Jersey, built for the H. J. Heinz Company, a corporation of the Commonwealth of Pennsylvania, and installed at its plant at Berkeley, California, a vinegar generator,—and whereas it is the desire of said H. J. Heinz Company to acquire the right to build and operate such vinegar generators as it will;

NOW THEREFORE, in consideration of the premises, and in consideration of the sum of One (\$1.00) to me in hand paid, I, the said Charles H. Owens, hereby grant to the said H. J. Heinz Company, its successors and assigns, and its subsidiaries, both in this and in other countries, license under Letters Patent of the United States, No. 2,089,412, granted August 10, 1937 (of which I am sole owner), and under such other letters patent of the United States and of other countries as I may own or may hereafter own, or acquire adequate right under, to maintain and operate the generator at Berkeley alluded to above; and to build

or to have built for itself and to operate vinegar generators at will, and situated where it will, without other or additional consideration."

On December 4, 1941 the Edgewater National Bank wrote to Heinz, attention Mr. E. P. Goetz, stating as follows (Tr. 548-549):

"* * * It is our understanding that three or four people have offered to take over his patents and production, but the stockholders in his company, as it is presently organized, have fantastic ideas that someone should give them a lot of money and let them continue their incompetent management of the affairs of the company. * * *"

"* * * The affairs of the company here are directed as far as possible, considering the differences between some of the owners, by Mr. R. O. Bentley, Jr., who is a thoroughly reliable and competent attorney who genuinely desires to assist Owens and his associates. Mr. Bentley has, I believe, no stock interest in the Company."

On March 16, 1942 Generator Company by Wittmer, Vice President, sent a letter to Heinz regarding settlement of the purchase price and informing Heinz as follows:

"In order that you may understand my position let me inform you that I own 37½% of the Owens Generator Company. Mr. Owens owns a like amount and Mr. Tobin 25%. We three constitute the Board of Directors and I can assure you that neither Mr. Owens or I has agreed to any settlement as suggested above * * *."

"* * * Permit me to tell you that Mr. Owens is the official representative of this company and that I stand squarely behind him and will endorse whatever steps he deems necessary, confident that his experience and knowledge of generators will lead him to make the proper decisions, therefore, you may disregard any

information from either Mr. Bentley or the Edgewater National Bank as to who represents our company.
 * * *” (Tr. 371-372, 389-390).

On December 7, 1942 Owens prepared a letter addressed to Generator Company in which he stated (Tr. 70, 373, 564) :

“In view of the fact that for some time past this Company has not been engaged in any business and cannot engage in any business at the present time, it is obvious that in accordance with the express provisions of Paragraph 1 of the said agreement of March 11, 1938 the license granted by the undersigned has been terminated and has become void and it is the purpose of this letter to confirm the aforesaid termination of said license.”

There is a dispute as to whether Wittmer or Tobin received this letter. However, it was received by Theresa V. McCurry as indicated by a letter from her attorney, Milton T. Lasher (Tr. 136). The charter of Generator Company was revoked on January 19, 1943 (Tr. 312). Lasher on April 15, 1943 made clear that he did not consider the termination proper (Tr. 394-395). Lowenthal responded to the effect that he thought that the termination was proper (Tr. 396-397). Owens, Lowenthal and Generator Company amicably resolved this dispute in favor of non-termination on November 16, 1943 by jointly instituting the Alameda proceedings.

On November 16, 1943, Owens and Generator Company, as joint plaintiffs, filed the Alameda action against Heinz in the Superior Court. Plaintiffs asked for an adjudication perpetually enjoining Heinz from asserting any rights or claims based upon the license dated November 25, 1941 executed by Owens to Heinz and “from asserting or claiming the right or license to build or have built for itself or to

maintain or operate vinegar generators of the type, kind or character covered by the Letters Patent of the United States owned by plaintiff Charles H. Owens, other than the one vinegar generator installed by plaintiffs at Berkeley, California." (Tr. 22-32).

In its answer, Heinz denied "that any justiciable or actual controversy exists between plaintiff company and either defendants" (Tr. 238); alleged that "said complaint does not state a cause of action in favor of plaintiff company" (Tr. 242); and alleged that "plaintiff company has not legal capacity to sue." (Tr. 242).

After a five-day trial (Tr. 207), the Superior Court entered findings of fact and conclusions of law particularly determining:

"A justiciable and actual controversy exists between plaintiffs and defendants relating to the legal rights, obligations and duties of the plaintiffs and defendant corporation concerning said defendants' right to build and operate vinegar generators of the type covered by said plaintiff's patent and particularly concerning the existence, contents, validity and enforceability of the written instrument hereinabove set out in paragraph VI of these findings and a copy of which is attached to the complaint and marked Exhibit "B", in the respects hereinafter alleged in paragraph IX of these findings." (Finding VIII, Tr. 216).

"With respect to paragraph III of the affirmative defense and answer to the complaint, found on page 15 of said answer, this Court finds that plaintiff Owens Generator Company, Inc. has had and does now have legal capacity to sue and to file this action." (Finding XI, Paragraph E, Tr. 222).

"Plaintiff Owens Generator Company, Inc. has legal capacity to sue." (Conclusion of Law I, Tr. 223).

The court specifically found (Tr. 225) "Plaintiffs Charles H. Owens and Owens Generator Company, Inc. are entitled to a decree of this court perpetually enjoining defendant H. J. Heinz Company and its officers, agents, and representatives" in the specific respects prayed in the complaint. A decree accordingly was entered in which (Tr. 34):

"It Is Further Ordered, Adjudged and Decreed that defendant H. J. Heinz Company and its officers, agents and representatives be and they hereby are perpetually restrained and enjoined and forever debarred from asserting any rights or claims based or founded upon or arising out of said original document of November 25, 1941 or any copy thereof, and from asserting or claiming the right or license to build or have built for itself or to maintain or operate vinegar generators of the type, kind or character covered by any Letters Patent of the United States owned by plaintiff Charles H. Owens, other than the one vinegar generator installed by plaintiffs at the H. J. Heinz Company factory in Berkeley, California."

The relative rights of Owens and Generator Company are determined in the following findings:

"At all times referred to in the complaint filed by plaintiffs, plaintiff Owens Generator Company, Inc., was and now is a corporation, incorporated under and by virtue of the laws of the State of New Jersey, with its principal place of business in the City of Hackensack, New Jersey, for the purpose of engaging in the business of the manufacture, sale and installation of vinegar generators. At all times mentioned in said complaint plaintiff Charles H. Owens was and now is the President of plaintiff Owens Generator Company, Inc., a corporation." (Finding III, Tr. 208).

"At all times mentioned in the complaint filed by plaintiffs, plaintiff Charles H. Owens was and now is the owner and holder of a certain patent covering the

construction and operation of vinegar generators of a type conceived, invented, perfected and patented by him, which said patent is more particularly described as Letters Patent of the United States No. 2,089,412, granted August 10, 1937.” (Finding IV, Tr. 208-209).

“During all of the year 1940 and the year 1941 plaintiff Owens Generator Company, Inc., by a written agreement between plaintiff Charles H. Owens and plaintiff Owens Generator Company, Inc., was the holder of the exclusive license to manufacture, sell, install and operate vinegar generators of the type covered by the said patent owned by plaintiff Charles H. Owens and more particularly described hereinabove in paragraph IV of these findings, and all improvements thereon. * * *” (Finding V, Tr. 209).

The Superior Court found that the November 25, 1941 license was obtained by fraud in the following findings:

“The aforesaid document was obtained by fraud and misrepresentation on the part of the defendants as to the contents, nature, scope and legal effect of the said document. * * *” (Finding VI, Tr. 212-213).

“* * * said claims of plaintiffs that defendant had obtained said document of November 25, 1941, through fraud and misrepresentation were justified and had ample foundation both in law and in fact.” (Finding XI, Paragraph F, Tr. 223).

Generator Company is directly involved in the following findings:

“Plaintiff Owens Generator Company, Inc. had no knowledge of the signing of the aforesaid document by plaintiff Charles H. Owens at any time until approximately six months before the filing of the complaint in this action and at no time did plaintiff Owens Generator Company, Inc. authorize plaintiff Charles H. Owens as its president or otherwise to sign or

execute said document or to enter into any agreement with defendant corporation or its officers, employees or agents concerning or relating to the construction, maintenance, and operation of vinegar generators other than the one generator covered by purchase agreement of August 28, 1940." (Finding VI, Tr. 214).

"Prior to said 5th day of April, 1943, plaintiffs were not aware and had no knowledge that defendant corporation claimed the right to build or to have built for itself or to operate vinegar generators of the type covered by plaintiff's said patent at will and situated wherever it desired without the consent of plaintiffs and without the payment of any consideration or compensation to plaintiffs * * *." (Finding VII, Tr. 215-216).

The Court found that both Owens and Generator Company were collectively entitled to relief as follows:

"Plaintiffs Charles H. Owens, and Owens Generator Company, Inc., a corporation, are entitled to a decree of this court ordering defendants to deliver up to this court the original of said document of November 25, 1941, and ordering the said original destroyed and cancelled." (Conclusion of Law VI, Tr. 225).

"Plaintiffs Charles H. Owens and Owens Generator Company, Inc. are entitled to a decree of this court perpetually enjoining defendant H. J. Heinz Company and its officers, agents and representatives from asserting any rights or claims based upon said original document of November 25, 1941, or any copy thereof, and from asserting or claiming the right or license to build or have built for itself or to maintain or operate vinegar generators of the type, kind or character covered by any Letters Patent of the United States owned by plaintiff Charles H. Owens, other than the one vinegar generator installed by plaintiffs at the H. J. Heinz Company factory in Berkeley, California." (Conclusion of Law VII, Tr. 225-226).

On March 27, 1945 Charles H. Owens resigned from the office of president of Generator Company by letter addressed to the Company (Tr. 73-74, 137-138, 569-571). Inspection of this letter discloses that he did not relinquish his stock in Generator Company, nor did he resign as a director of the Company.

After the issuance of the injunctive order, Heinz proceeded to violate its terms.

On September 8, 1949 Owens filed an affidavit charging such violation (Tr. 35). On July 13, 1951, the Superior Court entered an interlocutory order which purported to dispose of the rights of Generator Company, as follows (Paragraph II, Tr. 38) :

"II. At all times mentioned hereinbelow in these findings plaintiff Charles H. Owens was and now is the sole owner and holder of two patents covering the construction and operation of vinegar generators of a type conceived, invented, perfected and patented by him, which said patents are more particularly described as Letters Patent of the United States No. 2,089,412, granted August 10, 1937, and No. 2,236,153, granted March 25, 1941, by way of an improvement on the original patent.

"During the years 1940 to 1944, inclusive, plaintiff Owens Generator Company, Inc., had an exclusive written license from plaintiff Charles H. Owens to manufacture, sell, install, and operate vinegar generators of the type covered by the aforesaid patents. However, said exclusive written license was fully terminated and cancelled during the year 1945, and ever since said termination and cancellation plaintiff Charles H. Owens has been and now is the sole owner and holder of said letters patent, and at no time since that cancellation has any person, firm or corporation held or owned, or does now hold or own, any right or license of any kind or character to manufacture, sell,

maintain or operate vinegar generators of the type covered by said letters patent owned by plaintiff Charles H. Owens."

So far as the violation of the injunctive order itself was concerned the interlocutory decree provided (Tr. 47):

"The violation by defendant H. J. Heinz Company of this court's decree and injunction of 1944 and the infringement by defendant of plaintiff's patent, as found hereinabove, was deliberate and wilful and in bad faith.

"The evidence before the Court demonstrates, and this Court finds, an established chain of causation commencing with the original attempt of the H. J. Heinz Company to appropriate Owens' patents and continuing without interruption to the final erection and operation by defendant of vinegar generators which are substantially identical with those erected by Owens under his patent. This proceeding is one to enforce the injunction and decree issued in the original trial of this action and cannot be divorced from the facts that were developed by the evidence produced at the original trial with respect to the effort of defendant H. J. Heinz Company to acquire the benefits of plaintiff's patents through actual and gross fraud, trickery and deceit.

"Independently, however, of the evidence developed at the original trial, this Court finds on the basis of the evidence developed in the contempt proceeding that there was bad faith and a continuing and persistent and wilful design and intent on the part of defendant H. J. Heinz Co. to appropriate the essence of plaintiff's invention in direct and flagrant violation of the 1944 devise and injunction. It appears to this Court that even before the Court's signature was affixed to the decree and injunction rendered in 1944, the defendant was seeking and devising ways and means of getting around or flaunting the injunction

and decree and thereupon proceeded to imitate and duplicate, with unsubstantial variations, the essence and substance of plaintiff's patent."

On March 24, 1952, a final decree and award was entered awarding Owens compensatory damages of \$375,934.66 plus damages of \$526 per day and ordering the demolition of 16 vinegar generators (Tr. 62-67).

On review, in *H. J. Heinz Co. v. Superior Court* (1954) 42 C.2d 164, 266 P.2d 5, the Supreme Court affirmed that portion of the order directing destruction of the 16 generators finding that they had a value of over \$160,000. However, the Court annulled the allowance of compensatory damages. At page 173 the court said:

"On the question of the propriety of awarding compensatory damages, that is, damages suffered by plaintiff by reason of defendant's violation of the injunction, petitioner contends that the court had no authority in a contempt action to award such damages. This contention must be sustained."

At page 175 the court stated:

"* * * In 39 California Law Review, at page 560, the author states that 'California has no provision for compensatory contempt proceedings. Civil damages may be collected in an ordinary civil action for an act otherwise a contempt.'"

On May 15, 1954 Owens and Heinz settled the entire controversy. *First*, Owens transferred and assigned to Heinz the entire right, title and interest in and to United States Letters Patent No. 2,089,412 for a stated consideration of \$40,000 and for other good and valuable consideration (Tr. 426-428).

Second, Owens transferred and assigned to H. J. Heinz Company "the entire right, title and interest in and to"

Letters Patent 2,236,153 for a stated consideration of \$200,000 "and for other good and valuable consideration" (Tr. 423-425).

Third, Owens, for a stated consideration of \$10,000 released and forever discharged Heinz "from any and all claims and demands of whatsoever kind or nature, from the beginning of the world until the present time." (Tr. 419). The release particularly released Heinz and its said officers, directors, employees and stockholders (Tr. 420) from

"any and all claims for damages arising from, or connected with any actual or claimed infringement of said or any other Letters Patent and all claims for damages arising from or connected with any actual or claimed violation or disobedience of or non-compliance with, that certain Judgment and Decree for Declaratory and Other Relief rendered by the Superior Court of the State of California in and for the County of Alameda on or about December 21, 1944 in the action entitled 'Charles H. Owens and Owens Generator Company, Inc., a corporation, plaintiffs vs. H. J. Heinz Company, a corporation, and Glen F. Mason, Defendants', No. 175935, which was entered in Volume 312 of Judgments at page 412 and all claims for damages arising from or connected with any actual or alleged violation or disobedience of, or non-compliance with, that certain 'Final Order, Decree and Award' made and entered by the above-entitled court on or about March 24, 1952 in a certain contempt proceeding under the caption of said action No. 175935 and entered in Judgment Book No. 337 at page 369."

Fourth, on May 17, 1954 Owens and Heinz made a joint motion to dissolve the injunction and modify judgment (Tr. 261-262). This motion recited as follows:

"This motion is made on the ground that plaintiff CHARLES H. OWENS and defendant H. J. HEINZ COMPANY have entered into an agreement whereby plaintiff

has sold to defendant all his patents which were the subject matter of the said judgment and has transferred to the said defendant the rights which said injunctive provisions were designed to protect, that the license from plaintiff CHARLES H. OWENS to Owens Generator Company, Inc. was terminated in 1945 and said Owens Generator Company, Inc. has not had any interest in any of said patents since then, as found by this Court in that certain 'Interlocutory Order' of July 13, 1951, and said Owens Generator Company, Inc. is no longer in existence, that the said injunctive provisions have become moot and functus officio, and that it is in the inherent power of a court of equity to modify or vacate its decree when the ends of justice will thereby be served, and that the ends of justice will be served by the granting of this motion."

In support of the motion Owens and Heinz entered into a stipulation (Tr. 263):

"IT IS HEREBY STIPULATED, by and between the parties hereto, that the facts stated in the foregoing motion are true and that said motion should be granted."

Thereupon on May 17, 1954 the Court entered an order pertinent which provides (Tr. 268-269):

"It appearing that this Court heretofore on December 21, 1944 made and rendered herein its 'Final Judgment and Decree For Declaratory and Other Relief', which was entered in Judgment Book 312, page 412, and that said judgment contained certain injunctive provisions as follows:

'It is Further Ordered, Adjudged and Decreed that defendant H. J. Heinz Company and its officers, agents and representatives be and they hereby are perpetually restrained and enjoined and forever debarred from asserting any rights or claims based or founded upon or arising out of said original document of November 25, 1941 or any copy thereof, and from asserting or claiming the right or license to

build or have built for itself or to maintain or operate vinegar generators of the type, kind or character covered by any Letters Patent of the United States owned by Plaintiff Charles H. Owens, other than the one vinegar generator installed by plaintiffs in the H. J. Heinz Company factory in Berkeley, California.'

And it further appearing to the Court that good cause exists for dissolving said injunction and for vacating and annulling said injunctive provisions, and that plaintiffs have stipulated thereto,

Now, THEREFORE, upon the joint Motion of plaintiff CHARLES H. OWENS and defendant H. J. HEINZ COMPANY to Dissolve Injunction and Modify Judgment filed herein on May 17th, 1954, and the stipulation of plaintiffs, the said motion is granted, and the above quoted injunctive provisions of said Judgment are hereby forever vacated, annulled and set aside, *nunc pro tunc* as of December 21, 1944 with the same force and effect as if the same had never been contained in said judgment and decree."

On the same day the court entered into another order, pertinent portions of which recite (Tr. 264-267):

"1. The Court hereby adjudges and decrees that defendant H. J. Heinz Company has fully and completely purged itself of any and all contempts whatever resulting from any violations or disobedience of, or non-compliance with, the said judgment and decree of December 21, 1944 or the injunctive provisions thereof or said Final Order, Decree and Award of March 24, 1952, or any of the provisions thereof.

2. The Court further adjudges and decrees that the defendant H. J. Heinz Company is entitled to an order, and IT IS HEREBY ORDERED, that no penalty, punishment or sanction of any kind whatsoever should be imposed on said defendant H. J. HEINZ COMPANY by reason of any contempt or alleged contempt heretofore at any time committed.

3. The Court hereby orders remission of the said contempt judgment and sentence, to wit, the said Final Order, Decree and Award of March 24, 1952, and of all interlocutory orders preceding it, and the same are hereby forever remitted.

4. The Court hereby orders that said Interlocutory Order and the said Final Order, Decree and Award of March 24, 1952 be and the same are, and each is, hereby forever annulled, vacated and set aside with the same force and effect as if the same had never been made, and the order to show cause heretofore issued by this Court to the defendant H. J. HEINZ COMPANY on September 23, 1949 is hereby discharged."

On June 21st, 1954 Owens sent Mrs. Tobin a picture of Owens, Mrs. Owens and Lowenthal viewing a check. An accompanying note recites (Tr. 574) :

"This was taken in the courtroom, the day of the settlement. This is Lowenthal, our main lawyer who fought and won the three suits for us."

On June 24, 1954 both assignments were recorded in the U. S. Patent Office (Tr. 203, 206).

The present complaint was filed on June 18, 1957 (Tr. 1).

SPECIFICATION OF ERRORS

1. The District Court erred in adjudicating that plaintiffs and each of them shall have and recover nothing against Heinz and in dismissing this suit and the claims for relief of plaintiffs and each of them against Heinz (Tr. 316; Argued at pp. 33-60).

2. The District Court erred in concluding that the grant from Owens to Generator Company terminated on January 19, 1943 when its charter was revoked (Tr. 312; Argued at pp. 40-46).

3. The District Court erred in concluding that the 1944 Alameda judgment settled the matter of ownership of the

patents adversely to Generator Company (Tr. 313-314; Argued at pp. 34-39).

4. The District Court erred in finding that Heinz acted in good faith without notice of a breach of duty by Owens to the company (Tr. 312-315; Argued at pp. 46-60).

5. The District Court erred in failing to conclude that Heinz is a constructive trustee for appellants as a consequence of its intermeddling with the assets of Generator Company (Tr. 313; Argued at pp. 30-33).

ARGUMENT

Summary of Argument.

In the argument which follows, appellants urge that Generator Company was the equitable title holder of the Owens' patents found to be owned by Owens; that the Alameda judgment inured to the common benefit of Owens and Generator Company with respect to this ownership; that Heinz intermeddled with the patents and judgment with notice and that it therefore became a constructive trustee.

Appellants further urge that the District Court improperly granted summary judgment to Heinz. Appellants submit that the Alameda judgment conclusively determined the equities of the parties, that the forfeiture clause upon which the District Court relied was inoperative and that Heinz had both actual and implied notice of the rights of Generator Company when it intermeddled with the corporate assets.

Finally, appellants argue that, since the issues on this appeal are pure matters of law and since there is no dispute as to any issue of fact, the judgment of the District Court should be reversed with instructions to enter a judgment against Heinz in favor of appellants and to take such evidence as is necessary to determine the amount of relief which should be granted.

Under Appellants' Theory of the Case, Heinz Is a Constructive Trustee.

Appellants contend that the record discloses without material issue of fact that Heinz is a constructive trustee responsible to the creditors and stockholders of Generator Company for all losses which its conduct may have occasioned Generator Company and for all profits which it made by virtue of its intermeddling with the properties of Generator Company.

It is undisputed that Owens granted to Generator Company "the sole and exclusive right, privilege, and license within the United States to manufacture, sell, install and operate vinegar generators containing the said patented improvement, and any and all improvements thereon" subject to the stated conditions subsequent (Tr. 120-121; 359-360). Appellants contend that, as a matter of law, such a grant is an assignment (*All Steel Engines v. Taylor Engines* (N.D. Cal. 1950) 88 F. Supp. 745, 746-747, affirmed *Taylor Engines v. All Steel Engines* (9th Cir. 1951) 192 F.2d 171; *Watson v. United States* (10th Cir. 1955) 222 F.2d 689, 691; *Hook v. Hook & Ackerman* (3rd Cir. 1951) 187 F.2d 52, 56-58; *Daily v. Universal Oil Products Co.* (N.D. Ill. E.D. 1947) 76 F. Supp. 349, 356; *Heywood-Wakefield Co. v. Small* (1st Cir. 1938) 96 F.2d 496, 498-499; *Paulus et al. v. M. M. Buck Mfg. Co. et al.* (8th Cir. 1904) 129 Fed. 594, 596; and *Johnson Railroad Signal Co. v. Union Switch and Signal Co.* (C.C. Pa. 1893) 59 Fed. 20, 22-23).

Further, appellants contend that the record discloses without material issue of fact that there was a fiduciary relationship between Owens and Generator Company which began with the incorporation of the company and continued through the acquisition of the company's properties

by Heinz. At all times prior to the revocation of the charter of Generator Company on January 19, 1943, Owens was the President, a director and a 37½% stockholder of Generator Company bound by contract to devote his time exclusively to the management and operation of the business of Generator Company. Generator Company prior to becoming firmly established depleted its capital and dissipated what small income it had received by paying Owens over \$5,000 in salaries and expenses. The Company paid the expenses for filing the second application. Generator Company carried "patents" on its books for a stated capitalization of \$195,252.00. Generator Company reduced the generator designs to actual practice by installing a generator at the plant of the Frank Tea & Spice Company. Generator Company defended the patented structure against charges of patent infringement. Generator Company made changes in the first generator and installed these changes upon the generator it erected for Heinz. The stockholders of Generator Company lent their own personal credit to the construction of the Heinz generator and at least one of the other initial stockholders had judgment in the amount of \$7,000 rendered against him by virtue of his cooperation. The patents and the design of the Frank and Heinz generators was the only life blood which the corporation ever had. Appellants contend that on this undisputed record Generator Company, as a matter of law, was the equitable owner of the two Owens' patents (*Daniel Orifice Fitting Company v. Whalen* (1962) 198 A.C.A. 870; *Daily v. Universal Oil Products Co.* (N.D. Ill. E.D. 1947) 76 F. Supp. 349; *Dowse v. Federal Rubber Co.* (N.D. Ill. E.D. 1918) 254 Fed. 308; and *Ambler v. Whipple* (1874), 20 Wall. (87 U.S.) 546). Appellants further contend that although Owens was the record owner of the patents, his ownership,

as a matter of law, was that of a trustee holding legal title for his corporation (*Ind. Wireless Co. v. Radio Corp.* (1926) 269 U.S. 459, 469; *New Marshall Co. v. Marshall Engine Co.* (1912) 223 U.S. 473, 479; *Jonathan Mills Mfg. Co. v. Whitehurst* (6th Cir. 1896) 72 Fed. 496, 502; *Daily v. Universal Oil Products Co.* (N.D. Ill. E.D. 1947) 76 F. Supp. 349; *Dowse v. Federal Rubber Co.* (N.D. Ill. E.D. 1918) 254 Fed. 308; *Prime v. Brandon Manuf'g Co.* (D. Vt. 1879) 19 Fed. Case, Page 1324 at page 1328, Case No. 11421).

Appellants further contend that when the charter of Generator Company was revoked on January 19, 1943, it is indisputable, as a matter of law, that Owens, as a director, became one of three express statutory trustees designated by the New Jersey law to take possession of the property of Generator Company and to dispose of it in trust for the use and benefit of creditors and his brother stockholders with the right to use the name of the corporation in litigation seeking to enforce the rights which were appertinent to the patents and designs (New Jersey Statutes Annotated, Title 14, Chapter 13, Sections 14:13-4 and 14:13-5; *Matawan Bank v. Matawan Tile Co.* (1949) 2 N.J. 116, 65 A.2d 729, 734; and *State v. Fidelity Union Trust Co.* (1957) 25 N.J. 387, 136 A.2d 636, 640-641).

Appellants further contend that when Owens and Generator Company successfully prosecuted to judgment, on December 21, 1944 (Tr. 34), their joint complaint of November 16, 1943 (Tr. 30) that such judgment became itself a property right (28 Cal. Jur. 2d 612, Judgments Sec. 2). It of necessity reflected the trust for Generator Company.

When Heinz obtained a record title to the two Owens' patents, when it obtained a vacation of the judgment and when it obtained a full and complete release from Owens of all claims for damages arising by virtue of conduct pro-

hibited by such judgment, appellants contend that Heinz itself, as a matter of law, became a constructive trustee for the benefit of the creditors and stockholders of Generator Company with the full duty to account (California Civil Code, §§ 2223, 2224, 2243 and 2244; 54 Am. Jur. 241, Trusts § 305, Liabilities of Third Persons Participating in Trustee's Breach of Duty; *Kittle Mfg. Co. v. Davis* (1935), 8 Cal. App. 2d 504; *Daily v. Universal Oil Products Co.* (N.D. Ill. E.D. 1947) 76 F. Supp. 349; *L. A. Young Spring & Wire Corporation v. Falls* (1943) 307 Mich. 69, 11 N.W. 2d 329; and *Ambler v. Whipple* (1874), 20 Wall. (87 U.S.) 546, 559).

The District Court dismissed appellants' complaint as against Heinz on Heinz' motion for summary judgment for the reasons discussed and answered in the next section of this brief.

The District Court Improperly Granted Summary Judgment to Heinz.

The District Court granted summary judgment to Heinz on several grounds.

The first ground is based upon the condition of the written grant "for so long as said [Generator Company] shall continue in business, * * *" (Tr. 308). Relying upon the injunctive order of November 25, 1941 and the revocation of the charter of the company on January 19, 1943 (Tr. 312), the District Court as a matter of law concluded that the agreement thus ceased automatically by operation of law citing *Haffcke v. Clark* (4th Cir. 1892) 50 Fed. 531, 536; *Kenyon v. Automatic Instrument Co.* (W.D. Mich. S.D. 1945) 63 F. Supp. 591; and *Pierpoint Boiler Co. v. Penn. Iron & Coal Co.* (N.D. Ohio E.D. 1896) 75 Fed. 289 (Tr. 311-312). The District Court then held that any dealings of Heinz "with Owens in relation to the first patent would, and properly could, be carried out in good faith

and belief that Owens was the sole owner thereof" (Tr. 312) and that the second patent "came to an end for the very same reasons as patent No. 1." (Tr. 313).

The second ground is based upon the fact that the patents stood of record in the name of Owens alone (Tr. 313).

The third ground is that the matter of ownership of the patents was settled by the 1944 Alameda suit and is res judicata (Tr. 313).

Appellants accept without question the res judicata rule but contend that the Alameda proceedings are res judicata in confirmation of the very rights which appellants are prosecuting on the instant appeal. Since this contention, if correct, should control all of the issues raised on appeal, we discuss it first.

Generator Company's Equity Was Adjudicated Favorably in the Alameda Proceedings.

Appellants adopt that portion of the District Court's opinion which concludes that the matter of ownership of the patents was settled by the 1944 Alameda suit; that the decree is res judicata and that the ownership determinations in the prior action are binding in this case. Appellants therefore do not dispute the authorities upon which the District Court relied, namely *Johnson v. Fontana County F. P. District*, (1940) 15 C.2d 380; 2 Freeman on Judgments, § 689; and *People v. Bailey* (1916) 30 Cal. App. 581 (Tr. 314). Appellants submit further that the Alameda proceedings are conclusive in the United States Courts (29 Cal. Jur. 2d 287, Judgments, § 302; *Walters v. Wilson* (9th Cir. 1944), 142 F.2d 59 at page 60; *Napa Valley Co. v. R. R. Comm.* (1920), 251 U.S. 366; and *Fletcher v. Nostadt* (4th Cir. 1953), 205 F.2d 896).

Also appellants concede, and indeed urge, that the issue of res judicata may properly be determined on a motion for

summary judgment (*Bros. Inc. v. W. E. Grace Mfg. Co.* (5th Cir. 1958), 261 F.2d 428; *Fletcher v. Nostadt* (4th Cir. 1953), 205 F.2d 896; *Jones v. Zurich General Accident & Liability Ins. Co.* (2nd Cir. 1941), 121 F.2d 761; and *Tuo-lumne Gold Dredging Corp. v. Walter W. Johnson Co.* (N.D. Cal. 1947) 71 F. Supp. 111). "What issues were decided by the former * * * litigation is, of course, a question of law * * *" (*Emich Motors v. General Motors* (1951), 340 U.S. 558, 571).

Appellants submit that the District Court misconstrued the Alameda judgment. The District Court relied only on finding of fact IV which recites that Owens "was and now is the owner and holder of a certain patent" (Tr. 313, Finding IV, Tr. 208). The District Court failed to note that this was not an adjudication that Owens was the *sole* owner of the patents involved. Although the contract set aside recited that Owens was "sole owner" (Tr. 212), this recitation was not incorporated in the findings, conclusions and judgment. This presumably is one of the misrepresentations as to contents underlying the Court's finding (Finding VI, Tr. 212-213).

As said in *Pacific Coast, etc. Bank v. Roberts* (1940) 16 C.2d 800, 805:

"The term 'owner' is generic and being of general application is therefore frequently applied to one having an interest in or claim upon property less than the absolute and unqualified title."

After discussing cases the court concluded, page 805:

"* * * Sufficient has been said to establish that the precise meaning of the word 'own' or 'owner', when not modified by other words indicating either qualified or absolute ownership, depends upon the subject-matter and the circumstances surrounding the subject-matter and the parties."

The Superior Court and the parties were well aware that owner did not mean sole owner. This is undeniably established by subsequent findings of July 13, 1951 which recite, without approval or appearance of or notice to Generator Company, that Owens "now is sole owner" (Tr. 38). Prior to the instant decision, no one thought that Owens was adjudicated to be the sole owner in the 1944 judgment.

Finding V specifies the qualified nature of such ownership by reciting "during all of the year 1940 and the year 1941 plaintiff Owens Generator Company, Inc., by a written agreement between plaintiff Charles H. Owens and plaintiff Owens Generator Company, Inc., was the holder of the exclusive license to manufacture, sell, install and operate vinegar generators of the type covered by the said patent owned by plaintiff Charles H. Owens and more particularly described hereinabove in paragraph IV of these findings, and all improvements thereon." (Tr. 209.) Nothing is found or adjudged to indicate that this relationship terminated between 1941 and 1944. It is presumed that this relationship "continues as long as is usual with things of that nature." (C.C.P. Sec. 1963, para. 32).

The relationship between the owner of a patent and his exclusive licensee or assignee is that of trustee—beneficiary. Authorities bearing on this question are collected in *Ind. Wireless Co. v. Radio Corp.* (1926) 269 U.S. 459. There the court summed the authorities as follows, page 469:

"It seems clear then on principle and authority that the owner of a patent who grants to another the exclusive right to make, use or vend the invention, which does not constitute a statutory assignment, holds the title to the patent in trust for such a licensee, to the extent that he must allow the use of his name as plaintiff in any action brought at the instance of the licensee in law or in equity to obtain damages for the injury to his exclusive right by an infringer or to enjoin infringement of it. * * *".

Authorities in accord include :

“* * * New Marshall Engine Company, which took with notice of the prior transfer * * * held the legal title as trustee for the complainant.” *New Marshall Co. v. Marshall Engine Co.* (1912) 223 U.S. 473, 479.

“* * * He (the patentee) held the legal title to his patent in trust for his licensees. * * *” *Littlefield v. Perry* (1874) 21 Wall. (88 U.S.) 205, 223.

“* * * If the Smith Company had any interest in the patent, as Mills suggested, then it was apparent that George T. Smith, who held the legal title, was trustee for the company.” *Jonathan Mills Mfg. Co. v. Whitehurst* (6th Cir. 1896) 72 Fed. 496, 502.

“* * * the legal title to a patent may be in one person, and the equitable right to it in another * * *”. *Prime v. Brandon Manuf'g Co.* (D. Vt. 1879) 19 Fed. Cas. p. 1324 at p. 1328, Fed. Cas. 11, 421.

“* * * It would be quite absurd to say, in a court of equity, that a party holding an equitable title could be ousted of his equitable rights by the holder of the legal title, who, in such a case, stands in a court of equity, as trustee for the use and benefit of the party beneficially interested.” *Continental Windmill Co. v. Empire Windmill Co. et al.* (N.D. N.Y. 1871) 6 Fed. Cas. p. 367, 368, Fed. Cas. 3, 142.

Further, conclusion of law No. VII recites that “Plaintiffs Charles H. Owens and Owens Generator Company, Inc. are entitled to a decree of this court perpetually enjoining defendant H. J. Heinz Company and its officers, agents and representatives” from engaging in the conduct later recited in the injunction (Tr. 225, 314).

It is said in *Brum v. Ivins* (1908) 154 Cal. 17, 19:

“* * * ‘A judgment in favor of the plaintiff necessarily establishes his right to the relief given *against the person served.*’ * * *”.

And in sustaining demurrers where the joint plaintiffs had no community of interest the court, in *Gartler v. First Nat. Bk. of San Pedro* (1928) 88 Cal. App. 411, said at page 413:

“We think that both the special and general demurrers should have been sustained. ‘All persons having an interest in the subject of the action, and in obtaining the relief demanded, may be joined as plaintiffs, except when otherwise provided in this title.’ (Sec. 378, Code Civ. Proc.) This, of course, means a legal or property interest. (*Toomey v. Knoblach*, 8 Cal. App. 585 [97 Pac. 529].) [1] Plaintiffs may be joined where the action would afford relief to each of them even where the relief would not be exactly the same, but we know of no case holding proper a joinder of plaintiffs where the recovery of one would be inconsistent with the recovery of another.”

A close parallel is found in *Butler v. Collins* (1859), 12 Cal. 457, and *Collins v. Butler* (1859), 14 Cal. 223. In that case E. J. Butler and A. J. Butler were partners in a business. E. J. Butler executed and delivered to Collins a bill of sale for the goods of the partnership. Collins then assumed entire ownership and dominion of the goods and sold and delivered them to a third party. Plaintiffs brought an action in fraud against Collins. A verdict of the jury resulted in a judgment for plaintiffs which was affirmed on appeal subject to a remittitur.

Collins then brought an action in equity to enjoin enforcement of the judgment on the ground that Collins had a setoff against E. J. Butler, one of the plaintiffs in the judgment, and that “the judgment is, and was when obtained, really owned by E. J. Butler” (14 Cal. 227). The court held that the earlier judgment was *res judicata* that the judgment was jointly held by both plaintiffs. At page 228, the court held:

“The complaint, then, putting in issue the joint title, or the joint right to recover damages, the judgment determined the question of that joint title or right; and the very thing adjudicated in this controversy was the fact that these two men, as partners, had good right to a sum of money, before unliquidated, *as partners*. What the form of the verdict is, we are not informed, nor for what particular things the recovery was had—whether for an invasion of joint property, consequential damages, or injury to the business of the plaintiffs, or for the exact value of goods taken and converted. But, it matters not. As the recovery was had by these men as partners, claiming redress for a trespass upon firm property, the judgment was, and became, firm assets, as much as if Collins had voluntarily given his note in consideration of their claim on this account to these men as partners; and if a Court of Equity had been required to determine the nature of this credit, and the relative rights of individual and firm creditors to be paid out of the proceeds of it, no doubt can be entertained that it would be considered and treated as partnership assets.”

The court then analyzed the authorities and found that Collins could not deny that the judgment was a joint judgment.

Similarly in the case at bar, the judgment in the state court action was conclusive on the title issue and Heinz may not now deny the adjudicated fact that Owens, as owner of the patent, and Generator Company, as holder of the exclusive license, jointly owned the judgment.

The face of this judgment, as necessarily interpreted in the light of the findings of fact and conclusions of law, indelibly spreads on the record the respective rights of the plaintiffs, Owens as owner, and Generator Company as holder of the equity in the patents.

The Forfeiture Clause Is Inoperable.

The judgment is *res judicata* that the forfeiture clause upon which the District Court relied and the failure of the company to have corporate existence after January 19, 1943 did not deprive Generator Company of its property rights in the patent. As shown above, the question of Generator Company's rights was put at issue. If, as the District Court here found, the rights of Generator Company automatically terminated, a necessary consequence would have been the dismissal of Generator Company from the suit. The termination of its estate would have been a perfect defense to the claim which Generator Company made against Heinz. In *State of California v. McGlynn* (1862) 20 Cal. 233, it is held, page 275:

“* * * But it is always an absolute objection to the allowance of an injunction, for the purpose of protecting property during a litigation that the complaint show that the party seeking the injunction has no title or interest in the property, and no claim to the ultimate relief sought by the litigation; in other words, that the complaint shows no equity.”

The general rule is set forth in 2 Freeman on Judgments, page 1646, § 774 as follows:

“It may likewise be laid down as a general rule that any matters purely defensive, which were available even though not presented, and obviously all those actually presented, are merged in and conclusively adjudicated by an adverse judgment on the merits and cannot be used as the basis of a claim or defense in a subsequent action, even though the judgment was by default or the defendant was taken by surprise at the trial. A matter of pure defense, though not interposed to defeat an adverse judgment, cannot be made the basis of an independent action. The failure to interpose a defense is equivalent to interposing it and having it overruled, where judgment goes against the defendant.”

Here, the defense of lack of interest in the controversy was made and overruled.

Special attention should be given to the conclusion of the Alameda court that plaintiffs Owens and Generator Company are entitled to a decree (Tr. 225) as well as to the decree itself (Tr. 33-34) which does not purport to adjudicate any issues adversely to Generator Company. If for any reason the condition subsequent were operable to avoid the equitable title of Generator Company, no judgment could have been granted in favor of Generator Company.

It is indisputable that the condition subsequent came to pass. On January 19, 1943, 10 months before the action was filed, Generator Company was deprived of its charter under the New Jersey Statutes, Title 54, Chapter 11, §§ 1 and 2. Under Title 54:11-2, “* * * all powers conferred by law upon [the company] shall thereafter be inoperative and void.” Thus, Generator Company no longer existed “for the purpose of continuing the business for which [it was] established.” New Jersey Statutes, Title 14:13-4. Therefore it is indisputable that the condition subsequent was adjudicated to be ineffective.

In *Marshall v. Shafter* (1867) 32 Cal. 176 the court, in speaking of a prior judgment entered in an ejectment action, said, page 194:

“* * * The object of the action of ejectment, so far as the form of the recovery alone indicates it, is to recover the possession of premises which the defendant unlawfully withheld from the plaintiff. The judgment for the plaintiff determines that he was entitled to the possession, at the commencement of the action and the rendition of the judgment. (Yount v. Howell, 14 Cal. 465; Calderwood v. Brooks, 28 Cal. 151; Hardy v. Johnson, 1 Wall. 371.) * * *”

In speaking of another prior action which was brought in equity to set aside a certain deed, the court said, page 199:

“The object of the suit of *Shafter v. Reynolds* was to set aside a certain deed in the hands of Elizabeth Reynolds, as a cloud upon the title of the plaintiffs in that action. It does not appear from the record in that case that the title now claimed by the present plaintiff was involved in the action. (*Hamm v. Arnold*, 23 Cal. 373; *Hager v. Schindler*, 29 Cal. 57.) And if it can be said that it was actually or necessarily in issue, it would be difficult to see how the adjudication could have been in their favor, for *it must have been found that the plaintiffs in that action held the title, otherwise there would have been no basis for the judgment that the deed to Elizabeth Reynolds was null and void*, and that she convey to the plaintiffs all the claim of title she derived through that deed. The Court could not have granted the plaintiffs any relief against the deed had it been found that title was in any of the defendants.” (Emphasis added.)

And it is later noted in *Riverside Land, etc. Co. v. Jensen* (1895) 108 Cal. 146, at page 147 as follows:

“* * * The effect of the judgment against Cornelius Jensen, defendant’s predecessor, was to estop the latter, and the defendant who claims under him, from asserting title adverse to plaintiff anterior to the entry of that judgment. (Freeman on Judgments, §§ 300, 309; *Marshall v. Shafter*, 32 Cal. 195; *People v. Center*, 66 Cal. 559, 562.) * * *”.

Further the voluntary joinder of Owens and Generator Company in asserting rights on behalf of both of them in the patents is a waiver of the forfeiture clause which could not be recaptured after the entry of the judgment. It was held in *Jones v. Maria* (1920) 48 C.A. 171, at page 173:

“* * * Waiver is the intentional relinquishment of a known right, or such conduct as warrants an inference of the relinquishment of such right—an election by one to forego some advantage he could have taken or insisted upon. A person who is in a position to assert a

right or insist upon an advantage may, by his words or conduct, and without reference to any act or conduct of the other party affected thereby, waive such right. Once such right is waived, it is gone forever; the person who has waived the right will thereafter be precluded from asserting it. 'The courts, not favoring forfeitures, are usually inclined to take hold of circumstances which indicate an election to waive a forfeiture.' (*Queen Ins. Co. v. Young*, 86 Ala. 424, [11 Am. St. Rep. 51, 5 South, 116].)"

Haserot v. Keller (1924) 67 Cal. App. 659 involves a transfer of patent rights in which the patentee alleged a forfeiture of an underlying agreement in defense of a fraud action. At page 669 the court said:

"* * * But forfeitures are not favored in the law; and any inconsistent acts or dealings by the party claiming a forfeiture will be regarded as a waiver thereof. To constitute a waiver there need not be a new agreement nor a valuable consideration. (*Viele v. Germania Ins. Co.*, 26 Iowa, 9 [96 Am. Dec. 83]; *Roble v. Masonic Life Assn.*, 38 Misc. Rep. 481 [77 N.Y. Supp. 1098].) A simple voluntary relinquishment of a right with knowledge of all the facts—an expression of intention, by speech or conduct, not to demand a certain thing—is sufficient to constitute such a waiver."

Also:

"* * * A forfeiture, once waived is, however, gone forever, and cannot be revived by a change of mind of the party making the waiver or by subsequent events." *Sanitary District of Chicago v. Chicago Title and Trust Co.* (1917) 278 Ill. 529; 116 N.E. 161, 168.

Finally, the fiduciary relationship between Owens and Generator Company was such that it would have been a breach of his fiduciary duties and obligations to permit him to declare a forfeiture of the license. The condition came to

pass because of lack of funds to pay the franchise tax. However, the sad financial condition of the company was due directly to the excessive withdrawals by Owens of salary before the company became established. The fiduciary duty of an officer of a corporation is well stated in *Daniel Orifice Fitting Company v. Whalen* (1962) 198 A.C.A. 870 at page 876, as follows:

“As an officer of the plaintiff corporation for four years Whalen participated in management and necessarily owed a fiduciary duty to that company to put forth his best efforts and advance the position of that company in every way possible. * * *”

Other cases in accord include *San Francisco Water Co. v. Pattee* (1890), 86 Cal. 623, 629; *Wickersham v. Crittenden* (1892), 93 Cal. 17, 28-30; and *Pacific Vinegar etc. Works v. Smith* (1904), 145 Cal. 352, 365-366.

Because of this fiduciary relationship it is considered improper for a fiduciary to enforce a condition against his principal whenever he has any responsibility for bringing the condition to pass. This result occurred in *Daily v. Universal Oil Products Co.* (N.D. Ill. E.D. 1947) 76 F. Supp. 349. In speaking of a similar breach of condition the court there held the condition inapplicable, stating, page 358:

“In this situation, it is the opinion of the Court and the Court finds that Sunset Oil Refining Company had not lost title to the patents and patent applications hereinbefore described because of a breach of the terms of the written agreement of May 5, 1900, between Jesse A. Dubbs and Sunset, when they were assigned by Dubbs to Dunham on May 15, 1914.

“Since Jesse A. Dubbs was the admitted master and the alter ego of Sunset Oil Refining Company in which minority stockholders had an interest by virtue of a capital investment, he was legally charged with a trust to use and protect the company’s assets for the benefit of stockholders. (Citations omitted).”

The Authorities Cited by the District Court Are Distinguishable.

The decisions upon which the District Court relied do not warrant a contrary conclusion. *Kenyon v. Automatic Instrument Co.* (W.D. Mich. S.D. 1945) 63 F. Supp. 591 (cited Tr. 311) was reversed on appeal. In *Kenyon v. Automatic Instrument Co.* (6th Cir. 1947) 160 F.2d 878, the court held that the receivership of the grantee did not destroy the patent rights. At page 884 it said:

“* * * It cannot be said with any degree of justification that appellee took the patent here involved free from Kenyon’s claim. It is an ancient maxim that ‘equity follows the law’ and the law conserves and enforces rights, never destroys them. Pomeroy’s Equity Jurisprudence, 4th Ed. § 1577 * * *”.

Pierpoint Boiler Co. v. Penn. Iron & Coal Co. (N.D. Ohio E.D. 1896) 75 Fed. 289 (cited Tr. 312) is clearly distinguishable. There the purchaser of the patent was not a party to earlier litigation involving the construction of the forfeiture clause. The court concluded, page 293:

“* * * The relations of the parties are not such as to operate as an estoppel so as to make the issues res judicata. * * *”

Further, the court found “the equities of the case are with the complainant” who claimed to be the holder of title under the forfeiture. In the case at bar there has been no showing that any equities are with Heinz. Heinz’s entire course of conduct with regard to the generator from the very beginning has heretofore been adjudicated to be in bad faith.

In *Haffcke v. Clark* (4th Cir. 1892) 50 Fed. 531 (cited Tr. 311) the agreement held to be a license was one wherein a patentee “contributed all the rights to manufacture under the letters patent” (50 Fed. 535). Without the right to use, e.g. to install and operate, the *Haffcke* agreement was a

mere license (*Waterman v. Mackenzie* (1891), 138 U.S. 252, 257). In the case at bar the right transferred is "the sole and exclusive right, privilege, and license within the United States to manufacture, sell, install and operate" which is the entire patent monopoly, namely "the right to exclude others from making, using or selling the invention throughout the United States" (U.S. Code, Title 35, § 154).

The Law Protects a Holder of an Unrecorded Equity When Notice Is Present.

When Heinz acquired the patent rights, Owens was the holder of the record title to the patents. Heinz recorded its assignments from Owens in accordance with U. S. Code, Title 35, Section 261 which provides:

"An assignment, grant or conveyance shall be void as against any subsequent purchaser or mortgagee for a valuable consideration, without notice, unless it is recorded in the Patent Office within three months from its date or prior to the date of such subsequent purchase or mortgage."

The grant from Owens to Generator Company was not recorded. Under the statutory law, then, Heinz is protected if it was "without notice".

The question of what constitutes notice sufficient to protect the holders of a prior unrecorded equity are legion. The cases fall into two general classes.

The first class of case is that in which the purchaser has actual knowledge of the equity either directly or imputed to it through officers and other agents. Where such actual or imputed notice is present, cases which recognize the equity of the beneficial owner include *Taylor Engines v. All Steel Engines* (9th Cir. 1951) 192 F.2d 171 affirming *All Steel Engines v. Taylor Engines* (N.D. Cal. 1950) 88 F. Supp. 745; *New Marshall Co. v. Marshall Engine Co.* (1912), 223 U.S. 473, 479; *Ambler v. Whipple* (1874), 20

Wall. (87 U.S.) 546, 560; and *Continental Windmill Co. v. Empire Windmill Co., et al.* (N.D. N.Y. 1871) 6 Fed. Case 366, at page 368, Case No. 3142.

The second class of case includes those in which the notice is not actual notice but constitutes notice of suspicious circumstances sufficient to put a prudent man upon inquiry. Absent proof of diligent inquiry such cases infer notice. Examples of cases of this class include *Daily v. Universal Oil Products Co.* (N.D. Ill. Ed. 1947) 76 F. Supp. 349, 358, 360, 362, 363; *L. A. Young Spring & Wire Corporation v. Falls* (1943) 307 Mich. 69, 11 N.W. 2d 329, 343; *Kittle Mfg. Co. v. Davis* (1935), 8 Cal. App. 2d 504, 516; *Thompson v. Automatic Fire Protection Co.* (2nd Cir. 1914), 211 Fed. 120, 121; *Electric Storage Battery Co. v. Gould Storage Battery Co.* (W.D. N.Y. 1912) 197 Fed. 745, 749; *National Cash Register Co. v. New Columbus Watch Co.* (6th Cir. 1904), 129 Fed. 114, 116, 123; *Jonathan Mills Manuf'g. Co. v. Whitehurst* (6th Cir. 1896), 72 Fed. 496, 501; *Stanton Manuf'g Co. v. McFarland* (N.J. Ct. of Chan. 1895), 30 Atl. 1058, aff. in *McFarland et al. v. Stanton Manuf'g Co.* (1896), 53 N.J. Eq. 649, 33 Atl. 962; *Auburn Button Co. v. Sylvester* (1893), 72 Hun. 498, 25 N.Y.S. 237, affirmed without opinion (1895), 147 N.Y. 714, 42 N.E. 721; *Hamilton v. Kingsbury* (N.D. N.Y. 1880), 4 Fed. 428, 431, 435; and *Prime v. Brandon Mfg. Co.* (D. Vermont 1879), 19 Fed. Case, Page 1324, at page 1325, Case No. 11,421. In this regard patent properties are treated the same as other properties. The varied and different facts giving rise to implied notice in other cases are collected in 39 Am. Jur. 238, Notice and Notices, § 12, Means of Knowledge as Notice; 46 Am. Jur. 630, Sales, § 465, Requirement of Purchase for Value Without Notice; 54 Am. Jur. 212, Trusts, § 268, Duty of Inquiry; and 55 Am. Jur. 1075, Vendor and Purchaser, § 697, Notice Based on Suspicious Circumstances; Duty of Inquiry.

Several of the cited cases involve notice of equitable rights of defunct corporations. Such cases include *Daily v. Universal Oil Products Co.* (N.D. Ill. Ed. 1947) 76 F. Supp. 349; *New Marshall Co. v. Marshall Engine Co.* (1912) 223 U.S. 473; *Jonathan Mills Manuf'g Co. v. Whitehurst* (6th Cir. 1896), 72 Fed. 496, 502; *Auburn Button Co. v. Sylvester* (1893) 72 Hun. 498, 25 N.Y.S. 237, affirmed without opinion (1895) 147 N.Y. 714, 42 N.E. 721; and *Prime et al v. Brandon Manuf'g Co.* (D. Vt. 1879) 19 Fed. Case, Page 1324, at page 1326, Case No. 11,421. Conditions subsequent were held unavailable in the *Daily* and *Prime* cases. A defunct New Jersey corporation was involved in the *New Marshall* case.

Individually no single case involves a complex of facts identical with the undisputed facts present in the case at bar. However, collectively some one or more of the notice facts in the present case are commented upon in the foregoing decisions. As a convenience to the Court and to shorten this brief, non-argumentative abstracts including apt quotations in all of the foregoing cases are contained in alphabetical order in the appendix to this brief in accordance with Rule 18, Paragraph 2(e).

The common thread running through all of the cases is that a person acquiring an interest in patent rights is not entitled to rely upon the record title if he has notice of any facts indicating that the record title may be subject to equities of a third party. Where the assignee relying upon the record title has notice of suspicious circumstances he is bound to make inquiry to determine what the true title is. Agreeable to the rule of the foregoing cases, appellants now analyze the facts and show that as a matter of law Heinz had notice of such facts as to make the bona fide purchaser for value defense unavailable to it.

Heinz Had Actual Notice of the Equity of Generator Company.

Appellants submit that actual notice is clear on the present record without genuine issue of fact. This notice is spelled out in detail on the face of the 1944 Alameda judgment, findings of fact and conclusions of law. As shown above, this judgment was rendered in favor of Generator Company as well as Owens personally (Conclusions VI and VII, Tr. 225-226; Judgment and Decree, Tr. 33-34). The findings of fact disclose that Generator Company had "the exclusive license to manufacture, sell, install and operate vinegar generators of the type covered by the said patent owned by plaintiff Charles H. Owens" (Finding V, Tr. 209). Since Heinz was a party to this judgment and was bound by it, it must have had notice of the facts recited in the judgment and in the findings of fact (Cf. *Armstrong v. Ashley* (1907), 204 U.S. 272, 281, 283; and *Germania Life Ins. Co. v. Koehler* (1895), 59 Ill. App. 592, 594).

The very split up of the stated consideration for the purchase price of the several assets reflects actual knowledge. For a stated consideration of \$10,000, Heinz obtained release and quashing of a mandatory injunction which would have required the destruction of sixteen vinegar generators having a total value of \$160,000 (Compare release and satisfaction, Tr. 419 with evaluation of the Supreme Court, 42 C.2d 168). Further for this same price Heinz obtained a release of a civil action invited by the Supreme Court, having a prima facie value of \$375,934.66 plus \$526.00 per day from March 24, 1952 forward for violation of the injunction (Compare release and satisfaction, Tr. 419-420 with opinion of Supreme Court, 42 C.2d 168, 174-175). Thus, for \$10,000 Heinz obtained rights having the following prima facie values.

Value of Vinegar Generators.....	\$160,000.00
Release of Damages accrued to March 24, 1952	375,934.66
Release of \$526.00 per day from March 24, 1952 to May 15, 1954 (782 days).....	411,332.00
TOTAL	<u>\$947,266.66</u>

This is a little more than one cent on the dollar. But even if the split up be disregarded as fictitious (a fact in and of itself suspicious), notice is reflected by the figures.

To this total there would be added the value which Generator Company placed upon the patents namely \$195,252.00, which incidentally is less than the value of \$240,000.00 which Heinz purported to apply to the purchase of the two patents. The value of the total assets which Heinz acquired thus had a prima facie value of \$1,142,518.66. Heinz' purchase price of \$250,000 is approximately 22% of the total prima facie value of the property purchased. This is much less than the 37½% stock interest which Owens had in the company.

Even if the patents be written down to zero and all of the consideration were allocated to the claims totaling \$947,266.66, this would be under 27 cents on the dollar, still far less than the value of Owens' equity in the property alone.

Clearly then, the consideration is confirmatory that Heinz had actual notice of the title defects. As stated in Merrill on Notice, Section 54:

"Giving inadequate consideration for property acquired, while in one sense not unusual business conduct, in view of the ethics of the market place approving the driving of bargains as favorable to one's self as possible, may be analogized thereto, in that *ability to secure so choice a trade may suggest that inquiry was made or that the parties were in such close accord as*

to warrant supposition of knowledge. Many cases appear to infer knowledge of defect in title or of conveyance in fraud or hindrance of creditors from purchase upon inadequate consideration. Decisions apparently denying it may be explained upon the ground that the disparity in price was not enough to arouse suspicion." (Emphasis added.)

In *People v. Malouf* (1955), 135 Cal. App. 2d 697, the question was whether the defendant had knowingly sold stolen goods. At page 706, the court said:

"* * * Defendant sold seven diamonds for \$300, the price offered by Stillano. There was testimony (by Dessy) that the value of those diamonds was about \$730. According to that testimony, defendant sold those diamonds for about one-half their value. A sale of property at a price which is disproportionately low in comparison with the value of the property may be a suspicious circumstance. See *People v. Gould*, 111 Cal. App. 2d 1, 7, 243 P.2d 809; *People v. O'Shaughnessy*, 135 Cal. App. 104, 110-111, 26 P.2d 847. * * *"

A third item clearly indicative of actual notice is Heinz' joinder with Owens in stipulating "that the facts stated in the foregoing motion are true" in support of a false representation "that the license from plaintiff Charles H. Owens to Owens Generator Company, Inc. was terminated in 1945 and said Owens Generator Company, Inc. has not had any interest in any of said patents since then * * *" (Tr. 262-263). The entry of this stipulation of necessity imports the fact that Heinz knew that the equity of Generator Company was still in existence at the date of the entry of the 1944 judgment—for otherwise it would not have represented that the license "was terminated in 1945." Heinz introduced no evidence supporting the representation that the license terminated in 1945 for any reason whatsoever.

Further Heinz had actual knowledge that Owens had no right to deal with the patents without the consent of Generator Company. As shown above, on November 25, 1941 Heinz took from Owens a non-exclusive "license under Letters Patent of the United States, No. 2,089,412, granted August 10, 1937 (of which I am sole owner) * * *" (Tr. 212). Heinz had actual notice that Generator Company did not "authorize plaintiff Charles H. Owens as its president or otherwise to sign or execute said document" (Tr. 214). Generator Company joined in filing suit against Heinz for obtaining the license without its consent. Generator Company obtained a joint judgment against Heinz for doing so. Would not this place a reasonable person on notice that Generator Company would complain if Heinz obtained the entire interest in the patents without authorization of Generator Company? Patently, Heinz had notice that Owens did not have the right to deal with the assets without express consent of Generator Company.

Lastly, the question of actual notice should be appraised in the light of the fact that Heinz had already been twice adjudicated to be a fraud feisor with respect to the very subject matter which it purchased. It was held in *Butler v. Collins* (1859) 12 Cal. 457 at page 465:

"The only objection to all this testimony, as conducing to prove the original fraud, is, that it is matter *ex post factor*, and though it may be proof of fraud or bad faith, yet it is not proof that the fraud was in the contract itself. In cases of fraud, the rule which admits testimony to impeach it is liberal, both in civil and criminal cases, and subsequent acts are frequently resorted to for the purpose of showing antecedent fraud. So far does the rule extend, that distinct frauds, contemporaneous in their perpetration, are admissible to prove the fraud of the transaction under investigation. But in this case, the fraud being proven in refer-

ence to this very transaction, the date of the criminal intent must necessarily be a matter of inference for the jury. Thus, the dealing with property to-day as his property, by the vendor, is evidence to show the fraud committed in a sale a month ago. The subsequent acts are illustrative of the intent and character of the first. We cannot well understand why, when a man openly violates his engagements, so as to give a false and fraudulent effect to something which he has done before, a jury may not as well date the fraudulent intent from one period as another of the transaction, or what rule of charity requires us to date his fraud at a period which would be most advantageous to the perpetrator of the fraud. If a man goes to a livery stable, and pretends to hire a horse to go to one point, and starts off to a different place, in a different direction, and there sells him, we do not see that Courts would be bound to presume that his original motive was honest, but that he changed it afterwards.

“But, apart from this, the declaration of Collins already quoted, on the eighteenth, gives color to the transaction. It shows, if believed, a purpose reckless of moral obligation, and is a clear intimation that the only or main purpose of the arrangement with the Butlers was to get possession of the store; and certainly the other circumstances are not inconsistent with this hypothesis. But all that it is necessary to show is, that there was evidence tending to this result; and upon that question we have no sort of doubt.”

The converse is equally true—here Heinz has been found guilty of fraud in the original transaction of November 25, 1941 and it has been found that this fraud continued without interruption to the final erection and operation by Heinz of 16 vinegar generators which are substantially identical with that erected by Generator Company under the patent. Heinz has introduced no evidence that its present conduct can be divorced “from the facts that were developed by the

evidence produced at the original trial with respect to the effort by defendant H. J. Heinz Company to acquire the benefits of plaintiff's patents through actual and gross fraud, trickery and deceit." (Tr. 47.)

Appellants therefore submit that the question of equitable title should be resolved in favor of appellants on the authority of *Taylor Engines v. All Steel Engines* (9th Cir. 1951) 192 F.2d 171. In that case the court referred an earlier California State Court action seeking a declaratory judgment determining the interests of the parties to the invention. At page 173 this court said:

"* * * The suit resulted in a judgment finding the Nevada corporation to have a valid exclusive license. *Taylor v. Selig*, 1946, 28 Cal. 2d 634, 170 P.2d 913. * * *"

The court then turned to the patent recording statute and as to this said, page 174:

"* * * The equitable claim of the Nevada corporation could have been cut off by a sale to a bona fide purchaser, but the appellants have failed to place themselves in that class. The trial Court found, on substantial evidence, that at the time the individual appellants took the conveyance from Taylor they took with notice of the prior exclusive license to the Nevada corporation. Taylor Engines was formed by appellants for the purpose of acquiring title to the patents and exploiting them; they were its officers and acted on its behalf, as well as individually, in the transaction whereby the corporation acquired its interest in the patents. These circumstances impute the knowledge of the individuals to the appellant corporation. 3 Fletcher, Cyclopedia of Corporations, §§ 799, 803, 809, 827 (1947). This same notice precludes appellants from relying on the statutory requirement of recordation of patent assignments. 35 U.S.C.A. § 47."

Or, as District Judge Roche said in the underlying decision in *All Steel Engines v. Taylor Engines* (N.D. Cal. S.D. 1950) 88 F. Supp. 745, 747:

"The fact that this license was not recorded in the Patent Office does not affect its validity as between the parties to the assignment, *Fyrac Mfg. Co. v. Bergstrom*, 7 Cir., 24 F.2d 9, nor as against any subsequent purchaser who had actual notice of such prior assignment when purchasing. 35 U.S.C.A. § 47; *Why Corp. v. Super Ironer Corp.*, 6 Cir., 128 F.2d 539; *John Tuman & Sons v. Basse*, 2 Cir., 113 F.2d 928; 2 Walker, *supra*, § 342, p. 1411. The question, therefore, is whether the defendants did have actual notice of such prior assignment. There is substantial evidence that they did."

Appellants further submit that as a consequence of this notice it is immaterial that "the patent stands in the name of Chas. Owens alone" and "The patents stood in the name of Owens alone. All evidence of record showed it to be Owens' patent." (Tr. 313). Appellants submit that the proper rule which the District Court should have applied is that which the court applied in *Daily v. Universal Oil Products Co.* (N.D. Ill. E.D. 1947) 76 F. Supp. 349, 363:

"* * * They contend, first, that Dubbs was the owner of the record title to the patents. But under the authorities cited, the circumstances which surrounded the purchase of the patents dispelled the force of the record title. * * *."

Or as stated in *National Cash Register Co. v. New Columbus Watch Co.* (6th Cir. 1904) 129 Fed. 114, 123:

"* * * The facts which the complainant must be taken to have known pointed plainly to the probable existence of a right or title in conflict with that which they were about to buy. It became complainant's duty, therefore, to make inquiry as to the existence and

extent of this probable outstanding equitable, but prior, right; and an inquiry of Neer only was not a reasonable compliance with this duty. The failure to make reasonable inquiry under such circumstances convicts complainant of a degree of negligence inconsistent with the claim to be a bona fide purchaser without notice. * * *

Heinz Also Had Implied Notice.

The actual notice present in this case is further buttressed by implied notice of additional facts which imposed upon Heinz the duty of inquiry over and far beyond the actual notice which it had. These facts are undisputably spelled out on the record.

In the first place, Heinz had actual notice that it was dealing with a trusted fiduciary of Generator Company who was president of the company, a director of the company, the holder of 37½ shares of the capital stock of the company, and the alter ego of the company. This knowledge it acquired by virtue of all of its dealings with the company and appears in blueprints, letters, contracts, and court findings (Tr. 409, 410, 538, 411, 416, 548-549, 555-557, 559, 371-372). Such facts established the strong possibility that Generator Company was the equitable owner of the patents (*Daniel Orifice Fitting Co. v. Whalen* (1962) 198 A.C.A. 870; and *Dowse v. Federal Rubber Co.* (N.D. Ill. E.D. 1918) 254 Fed. 308). Knowledge of similar facts has been held sufficient to impose a trust in *Ambler v. Whipple* (1874) 20 Wall. (87 U.S.) 546 at page 559; *Daily v. Universal Oil Products Co.* (N.D. Ill. E.D. 1947) 76 F. Supp. 349, 362; *L. A. Young Spring & Wire Corporation v. Falls* (1943) 307 Mich. 69, 11 N.W. 2d 329, 343 and *Stanton Manuf'g Co. v. McFarland* (N.J. Ct. of Chan. 1895) 30 Atl. 1058, at page 1059, affirmed in *McFarland, et al v. Stanton Manuf'g Co.* (1896) 53 N.J. Eq. 649, 33 Atl. 962).

Secondly, Heinz knew that Generator Company actually used the patented designs in its business and claimed to be the owner of the designs. The drawings of Owen's patent 2,089,412 (Tr. 525-529) are incorporated in the generator assembly drawing of Generator Company (Tr. 538). This structure in turn was the structure with modifications which Generator Company built for Heinz under the contract of August 28, 1940 (Tr. 416). Heinz in turn knew that the right to build and operate such vinegar generators required a license under Patent 2,089,412 (Tr. 212). This coupled with the fact that the Generator Company claimed a continuing interest in the patent properties at least as late as the entry of judgment should have put Heinz on notice as to the rights of Generator Company in the designs and patents. As held in *Daily v. Universal Oil Products Co.* (N.D. Ill. E.D. 1947) 76 F. Supp. 349 at page 362:

"The legal effect of the use and possession of the patents by Sunset Oil Refining Company, of which Leszynsky and Belknap had actual knowledge, is stated in the case of *Prime et al. v. Brandon Manufacturing Co.*, C.C. Vt. 1879, 19 Fed. Cas. page 1324, No. 11,421. * * *"

In *Prime et al. v. Brandon Manuf'g Co.* (D. Vt. 1879) 19 Fed. Cas. page 1324, Cas. No. 11,421, the court said at page 1325:

"* * * The inventions were then, and for a long time had been, in full and open use by that company, and this reference to that use, in the very deeds to Meecham and Luce, was not only constructive notice to them of the fact of such use, but was express information of it, if they did not have that information otherwise. * * * This use by the defendant was possession of the monopoly, as far as that use extended, at least, which is as far as this controversy, embraced in the original bill, extends; and this possession, when actually known, was constructive notice of the claim of right under which

the possession and use were had, the same as the possession of land is notice to a purchaser of the legal title of any equitable right which the possessor may have.

* * * Had they inquired by what right the use of these patented inventions was had, they would probably have learned the truth about it, and must now stand as if they had enquired and learned it, which leaves them with precisely the same rights as Strong, their grantor, had, which were the same that he and Ross had."

Thirdly, Heinz was represented by highly qualified counsel in its purchase of the properties who had ample opportunity to study the record. Although its principal counsel Moses Lasky and Brobeck, Phleger & Harrison (Tr. 262) did not come into the case until the California Supreme Court proceedings (*H. J. Heinz Co. v. Superior Court* (1954) 42 C.2d 164), Heinz had been represented by the same patent counsel throughout the entire transaction beginning with the initial negotiations looking toward the construction of the vinegar generator and ending with the acquisition of the assets of Generator Company.

In August of 1939 Heinz "sent its Mr. Montgomery and its patent attorney, Mr. Bayard H. Christy of the firm of Christy and Wharton, Farmers Bank Building, Pittsburgh, Pennsylvania, to the plant of the Frank Tea & Spice Company to inspect the Owens Generator which was there installed and in operation." (Tr. 414). Robert O. Bentley, the attorney for Generator Company, was the party who dealt with Bayard H. Christy, Esq. of Messrs. Christy & Wharton in forwarding the blueprints of the plant which bore the company indicia (Tr. 411). At the contempt proceedings Heinz was represented by general counsel "together with Christy, Parmelee & Strickland (by William H.

Parmelee)" (Tr. 36). William H. Parmelee and Christy, Parmelee and Strickland represented Heinz in the 1951 appeal before this Court (*H. J. Heinz Co. v. Owens* (9th Cir. 1951) 189 F.2d 505). William H. Parmelee was one of the attorneys for Heinz on the petition for certiorari (*H. J. Heinz Co. v. Owens* (1952) 342 U.S. 905). William H. Parmelee and Christy, Parmelee and Strickland were among counsel for the petitioner in the State Supreme proceedings (*H. J. Heinz Co. v. Superior Court* (1954) 42 C.2d 164). Finally, William H. Parmelee was one of the attorneys for Heinz who falsely represented to the Superior Court the facts which resulted in a modification of the 1944 judgment (Tr. 261-263). Christy, Parmelee and Strickland specialize in patents, trade mark law and allied subjects (Martindale Hubbell Law Directory, 1962 Edition, Vol. III, page 5092).

This is an element therefore to be considered on notice as appears from *Daily v. Universal Oil Products Co.* (N.D. Ill. E.D. 1947) 76 F. Supp. 349, 363:

"* * * Belknap was a patent attorney and he undoubtedly was familiar with the legal possibility of the equitable title to patents resting in parties other than the holder of the record title."

For the foregoing reasons appellants submit that it was clear error on the undisputed facts in this case for the District Court to conclude that Heinz was without notice. On the facts, Heinz had both actual and implied notice as a matter of law sufficient to deprive it of the bona fide purchaser defense. Its failure to make inquiry in this case can be based only upon the proposition that Heinz was willing to take a chance on the title in view of the bargain which it had made. For \$250,000 it was able to get apparent title

from Owens of properties and choses in action having a prima facie value of over one million dollars. It knew that the stockholders of Generator Company "have fantastic ideas that someone should give them a lot of money" (Tr. 548). It had nothing to lose and everything to gain by risking the possibility that Generator Company would not find out about the transaction.

Appellants Ask for Judgment in Their Favor on This Appeal.

Heinz asserts that "there is no genuine issue as respects this defendant, as to any material fact * * *" (Tr. 198). The Court found, in a judgment prepared by the attorneys for Heinz, "that there is no genuine issue as to any material fact as between plaintiffs, or any of them, and defendant H. J. Heinz Company." (Tr. 316). Appellants submit that the undisputed facts in this case clearly demonstrate that Owens, in violation of his trust to Generator Company, and in fraud of the rights of Generator Company, deliberately entered upon a scheme by which Generator Company was to be deprived of the benefit of the equitable rights which it held in the patents as well as its interest in the Alameda judgment and in the choses in action arising from Heinz' violation of that judgment. Heinz has so far knowingly connected itself with and aided in the fraud on Generator Company that it cannot resist Generator Company's right to the patents, to the profits made or to be made out of them and to damages resulting from the destruction of the judgment itself. The foregoing discussion is a virtual paraphrase of the concluding portion of the opinion in *Ambler v. Whipple* (1874) 20 Wall. (87 U.S.) 546 at pages 558-559. Although the specific breach of trust and the specific intermeddling are specifically different,

they are generically the same. Appellants submit that the same result is that reached at page 559 should follow here, namely:

“* * * The result of these views is that the decree of the Supreme Court of the District must be reversed; that a decree must be entered in that court declaring Whipple and Dickerson to hold in trust for the benefit of Ambler to the extent of one-half the two patents issued to them, mentioned in the pleadings as 95,665 and 102,662; that an accounting be had as to the profits realized by them, or either of them, from the use or sale, or otherwise, arising from said patents, and for such other and further proceedings as may be In Conformity to this Opinion.”

And so here appellants ask this Court to reverse the decree of the District Court with instructions to enter a summary judgment declaring Heinz to hold in trust for the benefit of Generator Company the two patents issued to Owens and the value of the choses in action destroyed by Heinz and Owens; and to direct the District Court to order an accounting as to the profits realized by Heinz and Owens, or either of them, from the use or sale, or otherwise, arising from said patents and from the destruction of said judgment.

Although *Ambler* was not decided on a motion for summary judgment, the same result should flow from the submission of legal issues as an undisputed issue of fact by the defendant although it must be conceded that there is here no cross motion for summary judgment. Appellants contend that on those same undisputed facts that judgment should be awarded to them on this appeal without the formality of a cross motion for summary judgment. The cases which justify judgment for the non-moving party are myriad.

The rule which appellants ask this court to apply is that applied in *Local 33, Int. Hod Carriers, etc. v. Mason Tenders, etc.* (2nd Cir. 1961) 291 F.2d 496, 505:

“There remains the question whether there is authority to grant summary judgment for defendants in the absence of a cross-motion for summary judgment. It is Professor Moore’s view that such a motion would be a mere formality and is unnecessary in a situation such as we have before us, where the proofs before the court show plaintiff has no case. Moore’s Federal Practice, Vol. 6, pp. 2088-9. Although the writer of this opinion expressed a contrary opinion in 1948 as a District Judge, *Truncale v. Blumberg*, D.C., 8 F.R.D. 492, he is glad to take this occasion to state that he has changed his mind. Especially where there are several motions by the respective parties and the evidence of the facts bearing on the issues arising out of the complaint is all before the court in affidavit form, it is most desirable that the court cut through mere outworn procedural niceties and make the same decision as would have been made had defendant made a cross-motion for summary judgment.”

In *American Auto. Ins. Co. v. Indemnity Ins. Co.* (E.D. Penn., 1952) 108 F. Supp. 221 affirmed (3rd Cir. 1956) 228 F.2d 622, the question of the construction of an insurance policy was determined on the defendant’s motion for summary judgment in favor of plaintiff. At page 224 the court stated:

“This motion for summary judgment comes from the defendant. The plaintiff has not moved for summary judgment. In the defendant’s motion, however, it is asserted that there is no genuine issue as to any material fact and I agree that there is none. In view of the Court’s finding that on the undisputed record the defendant is liable to the plaintiff, the sensible and practical thing to do is to enter a summary judgment

in favor of the plaintiff. This is in accord with the practice approved in *Northland Greyhound Lines, Inc., v. Amalgamated Ass'n. of Street, Electric Railway and Motor Coach Employees of America*, Division 1150, D.C., 66 F. Supp. 431, 433, where the Court said, 'where the case is properly disposable by summary judgment the court should enter whatever judgment is proper in the circumstances. This should be particularly true where the relief asked is a declaration of the rights of the parties to a contract under the Declaratory Judgment statute. While it may be the better practice to file a cross-motion I do not think that Rule 56(c) proscribes the court's power to enter judgment because of the mechanical failure of one of the parties to file a motion. This view finds support in 3 Moore's Federal Practice, Sec. 56.02 page 3183'."

Other cases in accord include *United States v. Manufacturers National Bank* (N.D. N.Y. 1961) 198 F. Supp. 157, 158; *Bell v. Waterfront Commission of New York Harbor* (S.D. N.Y. 1960) 183 F. Supp. 175 (aff. 2nd Cir. 1960), 279 F.2d 853; *United States v. Cless* (M.D. Penn. 1957) 150 F. Supp. 687, affirmed (3rd Cir. 1958), 254 F.2d 590; *Farmers Insurance Exch. v. Allstate Insurance Co.* (E.D. Mich. S.D. 1956) 143 F. Supp. 213, 215; *Dickoff v. Shaughnessy* (S.D. N.Y. 1956) 142 F. Supp. 535, 542; *United States v. Franklin Federal Savings & Loan Ass'n.* (M.D. Penn. 1956), 140 F. Supp. 286, 288; *St. Louis Fire & Marine Insurance Co. v. Whitney* (M.D. Penn. 1951), 96 F. Supp. 555, 565, 566; *Hennessey v. Federal Security Administrator* (1949), 88 F. Supp. 664, 668; *Commercial Credit Corp. v. California Shipbuilding Corp.* (S.D. Cal. C.D. 1947), 71 F. Supp. 936, 937, 939; and *Northland Greyhound Lines v. Amalgamated Ass'n. etc.* (D. Minn. 1946), 66 F. Supp. 431, appeal dismissed by appellant (8th Cir. 1946), 157 F.2d 329.

The fact that damages are not wholly liquidated would not seem to preclude the grant of summary judgment on this appeal. Rule 56(c) provides:

“* * * A summary judgment, interlocutory in character, may be rendered on the issue of liability alone although there is a genuine issue as to the amount of damages.”

Appellants have found no authority directly supporting their position that a reviewing court may enter such a judgment. However, in view of the uniformity of decision that such a judgment is appropriate on the district court level, appellants submit that such relief comes within the four corners of the U. S. Code, Title 28, Section 2106, which provides:

“The Supreme Court or any other court of appellate jurisdiction may affirm, modify, vacate, set aside or reverse any judgment, decree, or order of a court lawfully brought before it for review, and may remand the cause and direct the entry of such appropriate judgment, decree, or order, or require such further proceedings to be had as may be just under the circumstances.”

CONCLUSION

In conclusion, appellants submit that the summary judgment entered by the District Court should be reversed. On the undisputed facts in this case, appellants submit that Generator Company is the equitable owner of the patents and patent rights which Heinz purchased from Owens in 1954; that Generator Company was the equitable owner of the injunctive judgment which Owens and Generator Company jointly destroyed in 1954; and that Heinz had such notice of Generator Company's rights as to become a constructive trustee for the benefit of Generator Company.

Appellants submit further that on the undisputed facts in this case the judgment of the District Court should be reversed with instructions to enter summary judgment for appellants and to conduct further proceedings to determine the amounts of damages.

Respectfully submitted,

CARL HOPPE

JAMES F. MITCHELL, JR.

*Attorneys for Plaintiffs-
Appellants.*

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

CARL HOPPE

Attorney

(Appendices Follow)

Appendix A

Chronological List of Exhibits in Transcript

Description	Reproduced
Agreement dated March 14, 1936 between Charles H. Owens and Frederick H. Wittmer	111-115
United States Letters Patent No. 2089412 issued August 10, 1937 to C. H. Owens for vinegar generator	525-532
Articles of Incorporation of Owens Generator Company, Inc. executed on March 10, 1938 by Charles H. Owens, Frederick Wittmer and William J. Tobin and certified on December 6, 1938	517-524
Agreement made March 11, 1938 between Owens Generator Company, Inc. and Charles H. Owens	75-78; also 116-119; also 355-358
Agreement dated March 11, 1938 between Charles H. Owens and Owens Generator Company, Inc.	120-128; also 359-362
Agreement dated March 11, 1938 between Charles H. Owens, Frederick Wittmer, and William Tobin	124-127; also 363-366
Assignment dated April, 1938 from Charles H. Owens and Frederick Wittmer trading as Owens-Wittmer Company to Owens Generator Company, Inc., assigning rights under written agreement between Frank Tea & Spice Company of Cincinnati, Ohio	128-130
Assignment dated April, 1938 from Charles H. Owens and Frederick Wittmer trading as Owens-Wittmer Company to Owens Generator Company, Inc., assigning rights under another written agreement with Frank Tea & Spice Company of Cincinnati	131-134
Letter dated November 17, 1938 from Owens Generator Company, Inc. C. H. O. President to H. J. Heinz Company	409
Letter dated November 23, 1938 from H. J. Heinz Company to Owens Generator Company, Inc. Attention : Mr. C. H. Owens, President	410

Description	Reproduced
United States Corporation Income and Excess Profits Tax Return of Owens Generator Co. filed March 15, 1939	253-256
Print dated May 2, 1939 entitled Generator Assembly. This print is the property of the Owens Generator Co. Inc. drawn by C. H. O.	538
Stipulation of Dismissal filed August 15, 1939 in the United States District Court for the Southern District of Ohio, Western Division in Civil Action No. 32—Standard Brands, Inc., plaintiff vs. The Frank Tea & Spice Co., and Jacob Frank, defendants	539-540
Letter dated October 11, 1939 from C. H. Owens to Robert O. Bentley, Jr.	367
Letter dated October 16, 1939 from R. O. B. to Daniel H. Kane, Esq.	541
Letter dated October 19, 1939 from Daniel H. Kane to Robert O. Bentley, Jr., Esq.	542
Letter dated October 21, 1939 from R. O. B. to Bayard H. Christy, Esq.	411
Letter dated December 1, 1939 from R. O. B. to H. R. Van Deventer, Esq.	412-415
United States Corporation Income and Excess Profits Tax Return of Owens Generator Company, Inc. filed March 15, 1940	295-298
Letter dated May 22, 1940 from Clarence O'Brien to Owens Generator Company, Inc.	560
Letter dated July 25, 1940 from Clarence A. O'Brien to Owens Generator Company, Inc.	561
Order dated August 28, 1940 from H. J. Heinz Co. to Owens Generator Company, Inc.	416
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Description	Reproduced
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Appendix B

Abstracts of Cases on Notice of Prior Equities in Patent Properties

Ambler v. Whipple (1874), 20 Wall. (87 U.S.) 546, involves a partnership between an inventor Ambler and a financier Whipple. Whipple was to have full control of the venture and the profits were to be divided one-half to each. The partners broke up and Whipple introduced Dickerson to the place where the experiments had been made and machinery had been used. Dickerson then applied for a patent in his own name embodying a colorable variation of the Ambler invention and both he and Whipple became partners and successfully introduced the invention on the market. Ambler brought an action for an accounting. At page 559, the court said:

“For all that has come to Whipple’s hand, for all that is included in the patents to him and Dickerson, he is, under the terms of the sixth article of the agreement, a trustee for Ambler to the extent of one-half, and must be so charged and held to account in this proceeding.

“As to Dickerson, while he is not a trustee under that article, we are of opinion that he has so far knowingly connected himself with and aided in the fraud on Ambler that he cannot resist Ambler’s right to an undivided half of both the patents to Dickerson and Whipple, and of the profits made or to be made out of them. What rights or remedies he may have against Whipple we do not decide.

“The result of these views is that the decree of the Supreme Court of the District must be reversed; that a decree must be entered in that court declaring Whipple and Dickerson to hold in trust for the benefit of Ambler to the extent of one-half the two patents issued to them, mentioned in the pleadings as 95,665 and 102,662; that

an accounting be had as to the profits realized by them, or either of them, from the use or sale, or otherwise, arising from said patents, * * *".

The case of *Auburn Button Co. v. Sylvester* (1893) 72 Hun. 498, 25 N.Y.S. 237, affirmed without opinion (1895) 147 N.Y. 714, 42 N.E. 721, involves a button patent which was issued to two Woodruff brothers. In 1883 the Woodruff brothers assigned the patent to Auburn Button Co., but the assignment was not recorded as provided by the statute. In April, 1891 the Woodruff brothers assigned the same patent to defendant Sylvester. Sylvester claimed to be a bona fide purchaser for value. However, he knew that Auburn Button Co. had used the patent in dispute and this he learned while he had been in position of superintendent for the Button Co. There was some evidence that he had actual knowledge of the Button Company's interest in the patent. At page 239 the court said:

"The defendant had the position of superintendent for the plaintiff while he was in its service, and assisted in working the patent machines. It was quite reasonable for him to suppose that the company was using it pursuant to some right or title derived from Woodruff Bros., its predecessor in the business; and it appears by the remark made by him when he saw the sheriff's notice of sale that he was apprehensive that the plaintiff had title to the patent, or some interest in it. The answer which he says was given by J. H. Woodruff to the inquiry as to who then owned the patent—that he did not know—would seem to have indicated that it was not then owned by Woodruff Bros., for if it had been, he could not well have said he did not know. The answer would reasonably seem to have led to the further inquiry whether they had assigned it, and to whom, if the inquirer was faithfully in pursuit of information upon the subject. The notice as to the facts

which put the defendant upon inquiry was that Woodruff Bros. had assigned the patent, and yet it seems that the defendant omitted to make any inquiry to ascertain what the fact was in that respect. The doctrine applicable to the subject is such that when there is some title or interest in conflict with that which a person is proceeding to purchase, and he has knowledge of facts sufficient to put him upon inquiry as to the existence of such title or interest, he is chargeable with notice of it. In such case the presumption is either that he has made the inquiry, and ascertained such prior right, or that he has been guilty of such negligence as to deny to him the character of a bona fide purchaser. The question is in some sense one of good faith on his part. He may repel the presumption by showing that he has diligently and duly pursued the inquiry, and been unable to ascertain that any such title or interest in conflict with that which he is seeking to obtain exists. *Williamson v. Brown*, 15 N.Y. 354; *Ellis v. Horrman*, 90 N.Y. 466. This the defendant failed to give evidence tending to prove. The fact that Woodruff Bros. had several years before assigned the patent to the plaintiff was that in respect to which the defendant was, by the circumstances within his knowledge, put upon inquiry; and it would seem that, if he had in good faith been seeking information in that respect, he would have made an inquiry necessarily calling for it as to that fact. His omission to do so seems somewhat significant, and, to say the least, was such a want of reasonable diligence as to permit the presumption to remain effectual against him, and to require the conclusion that he was charged with notice of such prior assignment."

Continental Windmill Co. v. Empire Windmill Co. et al. (N.D. N.Y. 1871) 6 Fed. Case page 367, Case No. 3142. In that case Brown was the patentee of the patent in suit. He was employed by Empire from 1866 to 1868 under a written

agreement which required assignment of his inventions to Empire. The invention was made while he was employed at Empire. The patent was applied for while he was employed at Empire but issued after he left Empire's employment. Brown then assigned three-quarters of the patent to certain parties who then united with him in an assignment to the plaintiff, a corporation in which Brown was a director and the manager. Continental then brought suit against Empire for infringement and defendant urged equitable title to the patent. At page 368 the court said:

"It is claimed, that, whatever may be the equitable title of the defendant, the legal title is not in the defendant, and, therefore, this defense cannot prevail; and that the defendant should file a bill setting up such equitable title, and compel a transfer of the patent. This suggestion overlooks the fact, that this suit is brought in a court of equity, where, in matters within its jurisdiction, an equitable title is as good as a legal title, as to all parties affected by such equity. It would be quite absurd to say, in a court of equity, that a party holding an equitable title could be ousted of his equitable rights by the holder of the legal title, who, in such case, stands, in a court of equity, as trustee for the use and benefit of the party beneficially interested.

"I do not think the plaintiff stands in any better position than Brown himself, in respect to a claim to restrain the defendant, or recover for its use of the improvements. Brown is himself the plaintiff's director and manager, and, in its dealing with this patent, it has notice, through him, as such. Therefore, the absence of any record of the defendant's agreement with Brown, gives the plaintiff no advantage. It has been repeatedly held, that an agreement which operates as a transfer of a patent is good as against the patentee and those who purchase with notice, though not recorded."

Daily v. Universal Oil Products Co. (N.D. Ill. E.D. 1947) 76 F. Supp. 349, involves a situation in which Jesse A. Dubbs was the president, a director, and the majority stockholder of Sunset Oil Refining Company, a defunct corporation. Dubbs transferred certain patents to Universal. The record title to the patents stood in his name, but there was an unrecorded exclusive license granted to Sunset, its successors or assigns which "was to continue so long as the company, *its successors or assigns*, should in good faith carry on the process of such treating and refining of petroleum oils under said letters patents." (76 F. Supp. 353.) Thirty years after the transfer an heir of a minority stockholder of the defunct corporation learned of the transfer and brought an action against the assignee for a pro-rata share of the purchase price paid for the patent properties. The assignee defended in part on the ground that it was a bona fide purchaser for value of the properties in question. At page 358 the court turned to this issue:

"The court also is of the opinion that the circumstances as they then existed in respect of Sunset Oil Refining Company and the patents and patent applications would have provided notice to anyone negotiating for the purchase of the patents that the company owned an interest therein."

The court then noted that the purchase price for the transfer comprised shares of stock in a new company made out to "Jesse A. Dubbs, trustee" (Page 360). Defendants asserted that both Jesse A. Dubbs and C. P. Dubbs asserted that the trust was for the benefit of C. P. Dubbs, and that the agents for the transferee had no knowledge actually or constructive of the interest of Sunset. At page 362 the court pointed to the following:

"The matter of the ownership of the patents being of paramount concern to purchasers thereof, when

Leszynsky and Belknap discussed the purchase of the patents with Jesse A. Dubbs in Los Angeles, they were confronted with many vital, contemporaneous facts: they met Jesse A. Dubbs in the office of the Sunset Oil Refining Company with the name of the company plainly printed on the door to the office; the name of the company was plainly printed on the safe in the office where the patent file was kept; Jesse A. Dubbs, from whom they sought to buy the patents, was president and the alter ego of Sunset Oil Refining Company, with his name and title plainly printed beneath the company's name on the office door. Sunset Oil Refining Company had possession of the patents and patent applications; the water separating process in the treatment of oil under patent No. 890,762, had been used commercially under license from Sunset, in the plant erected by Sunset on the Rice Ranch Oil Company lease, and the purchasers were informed of that; a new plant had been erected by Sunset at Ostend and the continuous water separating process had been used there commercially by Sunset and the purchasers were informed of it; this process was then covered by patent application No. 529,049 and later was covered by patent No. 1,123,502.

"During the conversations which took place before the patents were purchased, a routine inquiry into the books of Sunset Oil Refining Company would have shown that the inventions then the subject of the discussions were carried on the company's books as an asset of the value of \$100,000. The same inspection would have shown the use of the inventions by Sunset under agreements with Dubbs. It all evidenced a proprietary interest of Sunset Oil Refining Company in the patents."

Further facts revealed that files available to the transferee disclosed that several of the patented processes had been developed and used in the refining plants of Sunset

and that Jesse A. Dubbs was the President of the Company all the time and that Carbon P. Dubbs had been active in the development work of the Company. At page 362 the court said:

“The legal effect of the use and possession of the patents by Sunset Oil Refining Company, of which Leszynsky and Belknap had actual knowledge, is stated in the case of *Prime et al. v. Brandon Manufacturing Co.*, C.C.Vt. 1879, 19 Fed. Cas. page 1324, No. 11,421.”

At page 363 the court turned to defendants' insistence “that Belknap made reasonable inquiry in regard to the ownership of the patents by way of information that was given to him by J. A. Dubbs, C. P. Dubbs, and L. A. Dubbs.” At page 363 the court said:

“* * * The Court believes that the Dubbs family was the source least likely to give accurate information concerning ownership of the patents. * * * The Court believes that Belknap and defendants should have inquired into the books and records of Sunset Oil Refining Company and then of Mary Belle Hardison. Such inquiry would have settled once and for all the question of whether anyone other than Jesse A. Dubbs claimed an interest in the ownership of the patents.”

The court then discussed the question of record title at page 363 as follows:

“* * * They contend, first, that Dubbs was the owner of the record title to the patents. But under the authorities cited, the circumstances which surrounded the purchase of the patents dispelled the force of the record title. Second, that Dubbs represented to them that he owned the patents. * * * However, such representations by Dubbs would not permit the purchasers to ignore other evidence that pointed to and was consistent with the equitable interest of Sunset.”

The court relied upon general constructive trust law, and required the assignee to pay the minority stockholders of the defunct corporation a pro-rata share of the purchase price for the patents in the ratio of 150 to 750, the minority stockholder having owned 150 shares of the stock of the defunct corporation and the majority stockholder having owned 750 shares thereof. The court particularly noted, page 369, that Universal "participated in the destruction of a trust of which it had actual knowledge and in the conversion of the subject matter of the trust."

In *Electric Storage Battery Co. v. Gould Storage B. Co.* (W.D. N.Y. 1912) 197 Fed. 745, the question arose as to whether knowledge that a corporation had an interest in one patent of an inventor was constructive notice that it also had an interest in another patent of the same inventor. At page 749 the court held that it did in the following language:

"In view of the satisfactory evidence establishing Lloyd's knowledge of the prior Madden invention assigned to Van Winkle and Chamberlain, it necessarily follows that the complainant derived from Madden no greater title than he had at the time of the consummation of the transaction. Complainant, from November 19, 1895, when the assignment to Van Winkle and Chamberlain was recorded, must be deemed to have had constructive notice thereof, and was bound to take the prior invention into consideration, and could not supinely rely on Madden's representations that he had merely assigned the specific machine reserving to himself that which was basic. *Jonathan Mills Mfg. Co. v. Whitehurst et al.*, 72 Fed. 496, 19 C.C.A. 130; *Cordova v. Hood*, 17 Wall. 1, 21 L.Ed. 587; *National Cash Register Co. v. New Columbus Watch Co.*, 129 Fed. 114, 63 C.C.A. 616. He may have supposed that he retained the broad invention, and had not by his prior contract divested himself of it; but it clearly was the duty of

the complainant to make further inquiries. Walker on Patents (4th Ed.) 246; Robinson on Patents, vol. 2, §§ 775, 776.”

In *Hamilton v. Kingsbury*, (N.D. N.Y. 1880) 4 Fed. 428, the question arose as to whether the purchaser of a patent purchased with notice of three instruments affecting the title all executed in 1866, one of which was recorded and the other two of which were not recorded. At page 431 the court said:

“* * * The recording of the instrument of August 27, 1866, which was recorded, was not notice to the defendants that they could safely rely on the record as showing the whole transaction between the parties to the instrument in respect to its subject-matter. The three instruments were all of them valid without recording, as against the defendants, although *bona fide* purchasers without actual notice. * * *”

This was because subsequent conveyances conveyed only the “right, title and interest” of the assignors in the invention. This is brought out at page 435 as follows:

“The conveyance of April 29, 1868, from Lombard & Thompson, conveys only their ‘right, title, and interest’ in the invention. The conveyance from Reese conveys only his ‘right, title, and interest’ in the invention. The conveyance from Strong & Woodbury conveys only their ‘right, title and interest.’ No recitals in those instruments caused them to operate to convey to the defendants anything more than the right, title and interest of Lombard & Thompson, whatever it was, on the twenty-ninth of April 1868. It is true that the conveyance of April 29, 1868, and the subsequent conveyances, recite that what was vested in Lombard & Thompson, by the assignment to them, was ‘the right for the state of New York.’ But Milton A. Hamilton was no party to those conveyances. He did not deal

with any one but Lombard & Thompson. Even if they be regarded as acting as his agents in subsequently conveying, they conveyed only their 'right, title and interest.' What that was has been defined. The parties taking from and under them were, by the form of the conveyance from them, referred to Hamilton to ascertain what, in fact, the 'right, title, and interest' of Lombard & Thompson was. What it was depended on the three instruments of August 27, 1866, taken together, and an inquiry of Hamilton would have disclosed that fact. There was enough, in the terms 'right, title, and interest,' in the assignment from Lombard & Thompson, to put any purchaser from them, immediate or subsequent, on inquiry; and to charge him with notice of what such inquiry, if made of their grantor, would have disclosed. While by the recorded assignment of August 27, 1866, the right to make may appear to have been invested in Lombard & Thompson, yet they did not undertake to convey what that assignment appeared to convey, but only their 'right, title, and interest' as it in fact existed. The case, therefore, does not fall within the principle of the two cases cited for the defendants. In this case no one made any inquiry of any person but Lombard & Thompson. Neither Hamilton nor the plaintiff are bound by any suppression of the truth by them, or any failure on their part to disclose all three of the instruments, so long as they assumed to convey only their 'right, title, and interest.' "

In *Jonathan Mills Manuf'g Co. v. Whitehurst*, (6th Cir. 1896) 72 Fed. 496, the question arose as to whether the plaintiff had sufficient title in a patent to bring suit on it or whether the patent belonged to Smith Middlings Purifier Company, a defunct corporation. At page 501 the court stated:

"We concur with the circuit court in the view that, by the recitals in the assignment of Jonathan Mills to the complainant, the Jonathan Mills Manufacturing

Company, the latter was put upon inquiry as to the interest of the Smith Middlings Purifier Company and must be charged with notice of every fact with reference to the company's interest in the patent which diligent and honest inquiry would have developed. It is well settled that, when a purchaser cannot make out his title but through a conveyance which leads to a fact, he will be affected with notice of that fact. When a defect in title is brought to his knowledge, no inconvenience will excuse him from the utmost scrutiny. He is a voluntary purchaser, and, having notice of a fact which casts doubt upon the validity of his title, the rights of innocent persons are not to be prejudiced through his negligence. *Brush v. Ware*, 15 Pet. 93, 112, 114; *Oliver v. Piatt*, 3 How. 333, 410; *Cordova v. Hood*, 17 Wall. 1. As said by Mr. Justice Strong, speaking for the supreme court in the last-named case (page 8):

‘Wherever inquiry is a duty, the party bound to make it is affected with knowledge of all which he would have discovered had he performed the duty. Means of knowledge, with the duty of using them, are, in equity, equivalent to knowledge itself.’

“The chain of title disclosed by the patent office records, from Jonathan Mills, the original patentee, to George T. Smith, indicated an outstanding equity of some kind in Mills, and an assignment from Mills to the complainant was necessary to clear any title which it might acquire from Smith. The Mills assignment was, therefore, in the chain by which complainant must assert ownership, and it was charged with notice of the statement therein that the patent was supposed to be owned by the Smith Purifying Company. Indeed, his assignment was made directly to complainant, and authorized it to procure the patent from the company or its assigns. The company, therefore, necessarily, had actual as well as constructive notice of its contents. Now, it is true that the company referred to by Smith was the Smith Purifying Com-

pany, while the company which really owned the patent was the George T. Smith Middlings Purifier Company. We cannot suppose, however, that, in the trade, any mistake could have arisen from this difference. Complainant has not called its officers to testify as to what knowledge they had of the existence or nonexistence of a company by either name, or what efforts they made to identify the Smith Purifying Company with an existing company. Even Wardlow, complainant's agent in the purchase, has not been called to state what his knowledge or inquiry was in respect to the matter, although he is the person upon whom complainant relies as the innocent purchaser."

The court then pointed to the fact that the plaintiff relied upon an affidavit of George T. Smith when it purchased the patent. At page 502 the court said :

* * *

"Inquiry of Smith, from whom the purchase was to be made, certainly did not fill the measure of proper diligence; for he was necessarily interested to establish a clear title in himself. If the Smith Company had any interest in the patent, as Mills suggested, then it was apparent that George T. Smith, who held the legal title, was trustee for the company. It is well established that one who has reason to believe that another is offering property for sale, which he holds either as trustee or agent for a third person, cannot become a bona fide purchaser of the property for value by reliance on the statements of the suspected trustee or agent, either as to his authority, or as to his beneficial ownership of the thing sold. In such a case, inquiry must be made of some one other than the agent or trustee,—of some one who will have a motive to tell the truth, in the interest of the cestui que trust or principal. *Trust Co. v. Boynton* (decided by this court at the present term) 71 Fed. 797. If, then, the purifier company was the equitable owner of the patent in

controversy, we are fully justified in presuming, from the circumstances, that Wardlow and the complainant might easily have found it out from the receivers of the company, who were then in charge of its affairs and assets”.

The court next pointed out that on the merits of the controversy an earlier equitable judgment was binding upon the issues. There seemed to be some ambiguity in the description of the subject matter of the judgment in that it did not make clear whether the equitable judgment related to patents which Smith himself might obtain as an inventor and those which he might obtain by assignment. At page 504 the court said:

“* * * In support of the decree, and the court’s jurisdiction, an ambiguous description of the subject-matter should, it would seem, receive that construction which will sustain them both.”

In *Kittle Mfg. Co. v. Davis* (1935), 8 Cal. App. 2d 504, Davis, an inventor, granted Kittle the exclusive license to manufacture and sell certain camp beds. Four years later Davis organized Champion Folding Bed Company and in cooperation with one Adkins filed a conflicting application which was assigned to Champion. Kittle brought an action against Davis and Adkins for the profits alleged to have been made by them and damages. Kittle lost its case against Davis because it neglected to file a counterclaim in earlier litigation. Kittle also lost its case against Adkins in the trial court, but on appeal it was reversed. At page 515 the court found that Adkins could not take advantage of the prior bar because he was not a party to the first suit. The court then turned to the question of notice and stated, page 516:

“* * * Although there is no direct evidence that Adkins knew of the terms of the Davis-Kittle con-

tracts, there is circumstantial evidence strongly tending to establish such knowledge. Adkins was president of a company in Chicago that had been handling the beds manufactured by Kittle. He knew the latter was about to bring out a light-weight bed called the Davis Light-Weight Bed, and that Davis claimed to be the inventor of that bed as well as of the first one. He loaned Davis \$500.00 with which to develop a bed to compete with the new bed made by Kittle and agreed to apply for and take the patent in his name and to assign it to the nominee of Davis. The evidence amply shows that Davis was the inventor and that he and Adkins discussed some changes in the bed they were developing which might prevent infringement of the Davis patents. The bed was sold in violation of the rights of Kittle and the court found Kittle to have been damaged thereby, without finding the amount of the damage. The court might reasonably have concluded that Adkins acted fraudulently and for the purpose of profiting thereby, in thus assisting Davis to violate his contract. The evidence, we think, would have warranted findings sufficient to support a judgment for damages against Adkins."

In *L. A. Young Spring & Wire Corporation v. Falls* (1943) 307 Mich. 69, 11 N.W. 2d 329, several persons who had formerly held high salaried executive positions of trust and confidence with the plaintiff established a competing business upon an improvement in spring construction which had been developed in the Oakland, California plant of the plaintiff. They caused to be filed a patent application in the name of one Burch as trustee. They then proceeded to appropriate the patent to their own use to the detriment of the plaintiff. They also caused to be destroyed a bona fide application for patent owned by the plaintiff and filed in the name of the true inventor. Fred Burch was

held liable to the same extent as the original fiduciaries. At page 343 the court said:

“* * * Knowing that he was dealing with trusted executives of plaintiff corporation and General Motors, and knowing or being presumed to know the duties which they owed their respective employers and their breach of such duties, Fred Burch was a willing and active party to the conspiracy. As assignee of her deceased husband's 10 per cent. interest in the patents and as successor trustee, defendant Elizabeth Burch personally benefited and actively participated in the wrongdoings of the other individual defendants. As successor trustee she received and distributed royalties in the amount of \$102,980.23 to herself and other individual defendants. Because of their breaches of duty and their conspiracy and wrongdoings, defendant executives, Elizabeth Burch, and Albert Ruppert whose estate is represented by defendant Mabel Ruppert, administratrix, became jointly and severally liable to plaintiff and General Motors for all profits which they received from the Burch patents. In 3 Scott on Trust, p. 2429, § 506, it is stated: ‘Liabilities of third persons. Where a person in a fiduciary relation to another violates his duty as fiduciary, a third person who participates in the violation of duty is liable to the beneficiary. If the third person makes a profit through such participation, he is chargeable as constructive trustee of the profit so made.’

“In the case of *Irving Trust Co. v. Deutsch*, supra, 73 F.2d page 125, the Circuit Court of Appeals said: ‘One who knowingly joins a fiduciary in an enterprise where the personal interest of the latter is or may be antagonistic to his trust becomes jointly and severally liable with him for the profits of the enterprise.’ See, also, *Jackson v. Smith*, 254 U.S. 586, 41 S. Ct. 200, 65 L.Ed. 418; *Emery v. Parrott*, 107 Mass. 95; 15 C.J.S., Conspiracy, p. 1028, § 18; 11 Am. Jur. p. 578, § 45.”

In *National Cash Register Co. v. New Columbus Watch Co.* (6th Cir. 1904) 129 Fed. 114, National claimed title to the Neer patent and New Columbus urged that the patent was owned equitably by Kelly and Reynolds. At page 116 the court said:

“That the complainant did not have technical notice of the equitable interest of Kelly and Reynolds in this invention may also be conceded. The real contention is that it had information of facts which put the company upon inquiry, and that they are therefore chargeable with knowledge of all the facts which inquiry would have disclosed. *Cordova v. Hood*, 17 Wall. 8, 21 L. Ed. 587; *Jonathan Mills Co. v. Whitehurst*, 72 Fed. 496, 19 C.C.A. 130.”

The court then discussed the facts and concluded page 123:

“The court below, after an exhaustive examination of all the facts and circumstances of the case, reached the conclusion that the facts known to the complainant company at the time of its purchase were such as to put it upon inquiry. The facts which the complainant must be taken to have known pointed plainly to the probable existence of a right or title in conflict with that which they were about to buy. It became complainant’s duty, therefore, to make inquiry as to the existence and extent of this probable outstanding equitable, but prior, right; and an inquiry of Neer only was not a reasonable compliance with this duty. The failure to make reasonable inquiry under such circumstances convicts complainant of a degree of negligence inconsistent with the claim to be a bona fide purchaser without notice. The knowledge which its representative in this transaction had did not consist of vague rumors as to the possible rights of another. It was knowledge that tended strongly to show that Kelly and Reynolds were interested in the inven-

tion he was about to buy, and was not materially weakened by any subsequent facts known to him at the time he was called upon to act. It may be that Mr. Patterson did not have at the time any purpose to deliberately shut his eyes to the facts which inquiry might disclose, for that would amount to mala fides or fraud, and we do not attribute any evil purpose to him. The price he was asked to pay was a small one for a great concern, such as that he represented. When asked about the extent of his examination of the application before buying, he said :

‘I may or may not have examined the file wrapper, and cannot state positively upon this point. If the case was an important one, I should probably have an opinion submitted, or read it over myself. In this case I am under the impression that, the amount involved being so small, that I told Mr. Macauley he might buy the patent if the amount did not exceed \$200. That is about all I remember about it.’

“Under such circumstances, he may well say, as he does, that he at the time had no knowledge that any one beside Mr. Neer owned or claimed any interest in the invention. But he did have information which made it his duty to inquire whether others did not have an interest in this inchoate property, and this he doubtless would have done but for the comparative insignificance of the matter, which induced a very negligent method of action, which justly deprives his corporation of its claim to be a bona fide purchaser without notice. Evidence of a fraudulent purpose or conduct amounting to moral turpitude is not necessary to deprive a purchaser of a legal title of the advantages of his position.

“The English cases for a time seemed to tend toward a rule requiring evidence indicating a deliberate shutting of the eyes to avoid light, and amounting to what some of the judges styled fraud. 2 Pom. Eq. § 606, and notes, and cases there cited. But the latest announce-

ment seems to repudiate this extreme view. *Oliver v. Hinton*, 2 L.R. Ch. D. 1889, 264. The test of the American courts has not been so extreme. The inquiry has generally been whether the facts known were such as to put a reasonably prudent man upon his guard, and whether an inquiry has been prosecuted, with reasonable diligence. 2 Pom. Eq. § 606, and notes. * * *

In *New Marshall Co. v. Marshall Engine Co.* (1912), 223 U.S. 473, the court stated, page 478, that "The controlling fact for determination here is whether patent 725,349 belongs to the Marshall Engine Company, of New Jersey, or to the New Marshall Engine Company of Massachusetts." Marshall assigned an earlier patent 342,802, and "all improvements thereon and renewals of the same" (p. 474) to the New Jersey corporation but neglected to have the assignment recorded within the time required by law. Thereafter, his patent 725,349 issued and the New Jersey corporation manufactured 9 or 10 engines embodying the patented improvement. No formal assignment of this patent was made. On June 13, 1905 a receiver was appointed for the New Jersey corporation. Immediately thereafter Marshall organized the New Marshall Co. under the laws of Massachusetts and assigned to it patent 725,349. The Court found that "The New Marshall Engine Company took with notice of the complainant's right". (p. 475). The New Jersey corporation filed a bill in equity asserting its title and asking both Marshall and the Massachusetts company to assign the patent and prayed for an injunction against both of them from manufacturing or selling machines covered by the patent. The Supreme Court held this relief to be appropriate. At page 479, it said:

"Marshall had, however, in violation of his contract, previously assigned patent 725,349 to the New Marshall Engine Company, which took with notice of the prior

transfer. This Company, therefore, held the legal title as trustee for the complainant. * * *

In *Prime v. Brandon Manuf'g Co.* (D. Vermont, 1879) 19 Fed. Cas. Page 1324, Case No. 11,421, plaintiffs and defendants had a dispute as to who had superior rights in certain patents relating to scales. Prime et al. claimed by virtue of certain formally executed documents. Brandon claimed it had superior rights. The question of bona fide purchaser arose. At page 1325 the court said:

* * * In each of the deeds from Prime to Meacham and to Luce, the deed from Strong to Prime is referred to as the source of Prime's title, and is described as 'a certain conveyance to David W. Prime, of Brandon, Vt., in and to certain patents and royalties for "improvements in weighing scales," which are now in use by "The Brandon Manufacturing Company, of Brandon, Vt.," and are known as the Strong and Ross patents.' The inventions were then, and for a long time had been, in full and open use by that company, and this reference to that use, in the very deeds to Meacham and Luce, was not only constructive notice to them of the fact of such use, but was express information of it, if they did not have that information otherwise. *Cuyler v. Bradt*, 2 Caines, Cas. 326. And this reference in the deed of Prime to the one to him, as being of patents so in use, shows, clearly, that he took his deed with full knowledge of that use; and the conveyances were so near together in point of time, that he must have had the fact of such use in his mind at the time of both buying and selling. This use by the defendant was possession of the monopoly, as far as that use extended, at least, which is as far as this controversy, embraced in the original bill, extends; and this possession, when actually known, was constructive notice of the claim of right under which the possession and use were had, the same as the possession of land

is notice to a purchaser of the legal title of any equitable right which the possessor may have. 1 Story, Eq. Jur. §400; *Pinney v. Fellows*, 15 Vt. 525. Had they inquired by what right the use of these patented inventions was had, they would probably have learned the truth about it, and must now stand as if they had enquired and learned it, which leaves them with precisely the same rights as Strong, their grantor, had, which were the same that he and Ross had."

The court also went on to show that the assignee of Howe had interest in some of the patents. As to this the court said, page 1326:

"The right to the unexpired term of the patent of 1862 stands upon different footing from those to the extensions. Strong, Ross and Howe were joint inventors of that invention, and assigned to Howe, while an agreement between them relating to the use of all these and other patented inventions, dated September 1st, 1859, was in force, by the terms of which, if Howe or his representatives should elect not to continue the business of making scales, the rights of Howe, acquired by that agreement, would revert to Strong and Ross. Howe transferred the business of making scales to the Howe Scale Co. He and that company both got into bankruptcy; he has since died, and his representatives have not continued the business at all. It is argued, that this patent reverted, under the provisions of that contract. But on the 1st of March, 1864, Strong and Ross made another conveyance of the patents which have been extended, and several others, to Howe, without mentioning the one of May 20th, 1862, and expressly rescinding the agreement of September 1st, 1859. This left the title to this patent in Howe, with no provision in force anywhere for depriving him of it. And that it was intended to remain there is apparent from the transactions. * * *"

As to this also the court noted, page 1328:

“* * * The apparent legal title to the extensions came to Strong and Ross; but the legal title to a patent may be in one person, and the equitable right to it in another; and this applies to extensions as well as to original patents, as fully appears from the principles and authorities before referred to. *Hartshorn v. Day*, 19 How. [60 U.S.] 211; *Newell v. West* [Case No. 10, 150]. * * *”

At page 1329 the court pointed out how the defendant's business was based upon the patents as follows:

“* * * These inventions were the foundation of the defendant's business, and large outlays were made in establishing it, on the expectation of having them; and it is not probable that the defendant would have permitted them to be granted without opposition, for Strong and Ross to have them, and much less, that the expenses of obtaining them would have been paid, to secure them to Strong and Ross. They cannot, in good faith, now claim the extensions, and, in equity, their claim cannot properly be enforced. Ross, in fact, never has claimed them, but has merely quitclaimed his rights, if any, to Strong.”

In *Stanton Manuf'g Co. v. MacFarland* (N.J. Ct. of Chan. 1895) 30 Atl. 1058, affirmed in *MacFarland et al v. Stanton Manufacturing Co.* (1896) 53 N.J. Eq. 649, 33 Atl. 962, MacFarland purchased from Stanton a certain patent for making soap which was an improvement on an earlier patent assigned to plaintiff. At page 1058 the court said:

“* * * This last patent, Stanton assigned to the defendant MacFarland. The assignment of the original patent to the Stanton Manufacturing Company was not recorded at the time of the assignment of the last patent to MacFarland. But the complainant claims that MacFarland had notice of the assignment to the com-

pany, or of such facts as deprive him of the rights of a bona fide purchaser. This statement involves the principal point in controversy."

The court thought that McFarland had actual notice because of the intimate relationship between McFarland and Stanton. However, the court went on to state that McFarland had visited the company. At page 1059 the court said:

"* * * This company was styled 'The Stanton Manufacturing Company.' I think no one would believe him for an instant if he were to say that he did not know that Stanton, his friend, was the patentee, nor if he were to say that he did not know that the company who owned this plant and who was manufacturing this soap was not the Stanton Manufacturing Company, of which his friend was a member, nor if he should say that the other members of this company had engaged in this enterprise without in some way securing an interest in the patent which protected them in their investment, and in the enjoyment of the manufactured product. His visit to the plant with a son of Stanton, and the other circumstances above narrated, together with what follows, I think, show that he had notice of such facts as to put him on his guard, and to bring this case fully within that of *Auburn Button Co. v. Silvester*, 79 Hun, 611, 29 N.Y. Supp. 1140."

Stanton had told McFarland that he had been mistreated by the company and that McFarland had fully looked into the matter and had been advised that the patent was all right. The court concluded, page 1059:

"* * * I cannot avoid deciding that McFarland had such clear, full, and direct information of circumstances, facts, and existing conditions as to put him upon inquiry, and that he could not neglect such inquiry, and claim to be a purchaser in good faith."

On Appeal the Court of Appeals and Errors said, page 962:

“* * * The assignment to the Company was not recorded when McFarland took the assignment in 1893; but I think that the testimony of Woodruff and of Fels, and the testimony of McFarland himself, shows that he had notice of the previous assignment to the company. The conclusion of the vice chancellor on this point is supported by the evidence. * * *”

Thompson v. Automatic Fire Protection Co. (2nd Cir. 1914) 211 Fed. 120, involves an agreement under which Shipman was to perfect certain inventions which Thompson had already started and should assign to the latter whatever he might discover or invent along the line of fire protection devices. The defendant claimed to be a bona fide purchaser for value of the improvements made by Shipman. At page 121 the court said:

“[2] The crux of the case is whether defendants had notice of the arrangement with Thompson sufficient to put them on inquiry, before they took assignment from Shipman. The evidence is not very strong, but defendants themselves admit that Shipman told them Thompson had forced him to assign other patents and that he wanted to keep this patent away from Thompson. Also that he felt under some obligation to offer it to Thompson.

“It seems to us that a business man of reasonable care and prudence would, under these circumstances, before putting his money into an enterprise, have gone to Thompson and asked him if he was making any claim to this invention of Shipman and, if he said he was, would have asked him what was the nature of his claim, so that the inquirer might advise himself whether he could safely purchase.”